VOLUME 1

2006
2007

Consolidated financial statements of the gouvernement du Québec

Fiscal year ended March 31, 2007

Québec

PUBLIC ACCOUNTS 2006-2007

VOLUME 1

CONSOLIDATED FINANCIAL STATEMENTS OF THE GOUVERNEMENT DU QUÉBEC

Fiscal year ended March 31, 2007

Published in accordance with section 86
of the Financial Administration Act (R.S.Q., c. A-6.001)

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To His Excellency the Honourable Pierre Duchesne
Lieutenant-Governor of Québec
Parliament Building
Québec

Your Excellency,

The undersigned has the honour of presenting to Your Excellency the Public Accounts of the Gouvernement du Québec for the fiscal year ended March 31, 2007.

Monique Jérôme-Forget
Minister of Finance,
Minister of Government Services,
Minister responsible for Government Administration
and Chair of the Conseil du trésor

Québec, December 2007

Mrs. Monique Jérôme-Forget
Minister of Finance,
Minister of Government Services,
Minister responsible for Government Administration
and Chair of the Conseil du trésor
Parliament Building
Québec

Dear Madam,

In accordance with the commission entrusted to me, I have the honour of presenting the Public Accounts of the Gouvernement du Québec for the fiscal year ended March 31, 2007. These accounts have been prepared under section 86 of the *Financial Administration Act (R.S.Q., c. A-6.001)*, in accordance with the Government's accounting policies.

Respectfully yours,

Carole Boisvert

Carole Boisvert, CA
Comptroller of Finance

Québec, December 2007

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Presentation of the Public Accounts

The *2006-2007 Public Accounts* present the financial position of the Gouvernement du Québec and its operations. They include a financial analysis and a glossary to make them easier to understand and thus increase their usefulness and transparency.

The Ministère des Finances is aware that the use of indicators is extremely efficient for observing changes in the state of the Government's finances. Therefore, seven representative indicators are presented in the section "Analysis of the financial statements."

Preparing the Public Accounts requires the participation and collaboration of many employees from different Government departments, agencies, funds and enterprises. We would like to thank all of them for their help in publishing this document.

Prior to the publication of the Public Accounts, the Ministère des Finances regularly informs the public about the state of the Government's finances and the results of its financial transactions, notably through the *Monthly Report on Financial Transactions*.

The *2006-2007 Public Accounts* present information on the actual results for fiscal 2006-2007. The original forecasts were presented in the *2006-2007 Budget* of March 23, 2006 and revised in the October 24, 2006 *Update in Québec's Economic and Financial Situation*. The preliminary results were presented in the *2007-2008 Budget* on May 24, 2007.

The Public Accounts for the fiscal year ended March 31, 2007 have been prepared by the Comptroller of Finance for the Minister of Finance in accordance with the accounting policies established by the Conseil du trésor and pursuant to the provisions of section 86 of the *Financial Administration Act (R.S.Q., c. A-6.001)*. They are published in two volumes.

Volume 1 – Consolidated financial statements of the Gouvernement du Québec

Volume 1 presents the consolidated financial statements of the Gouvernement du Québec, as well as a financial analysis that allows a better understanding of the transactions carried out in fiscal 2006-2007.

The consolidated financial statements consist mainly of the following:

- A consolidated statement of operations, which presents the annual surplus or deficit arising from operations during the fiscal year. It discloses the Government's revenue, the cost of services and other current expenses, as well as the variance between the current fiscal year and the previous one.

- A consolidated statement of accumulated deficit, which presents the change in accumulated deficits taking into consideration the results for the year and various restatements, where applicable.
- A consolidated statement of financial position, which presents the financial resources of the Québec government as well as its obligations. It shows the net debt from which the net value of non-financial assets must be subtracted to determine the accumulated deficit.
- A consolidated statement of change in the net debt, which presents the combined effect on the net debt of the results for the fiscal year, variances due to non-financial assets, items charged directly to accumulated deficits and various restatements, where applicable.
- A consolidated statement of cash flow, which provides information on the Government's liquid assets derived from its operating activities and used for its investment activities, and shows how the Government financed its activities over this period.
- Notes and appendices, which provide additional information on the items that make up the various consolidated statements and which are an integral part of the consolidated financial statements. The notes also include a summary of the main accounting policies used in preparing the consolidated financial statements.

The report of the Auditor General of Québec presents his opinion on the consolidated financial statements.

Volume 2 – Revenue, appropriations, expenditure and investments of the Consolidated Revenue Fund and financial information on the special funds of the Gouvernement du Québec

Volume 2 is divided into three sections. The first two sections report on the operations of entities whose revenue is cashed into the Consolidated Revenue Fund or the Health Services Fund and entities whose operating activities are paid for out of these funds using appropriations allotted by Parliament. Such entities include Government departments, budget-funded agencies, the National Assembly and persons designated by it, and other portfolios. The third section presents summary financial information on the special funds and the sinking funds.

Glossary

The following terms are used in the section "Analysis of the financial statements" and throughout the financial statements contained in this volume.

Accrual basis of accounting

An accounting method that involves taking into account when the revenue is earned and the expenditures incurred in determining an entity's net results, without considering the moment the transactions were settled through cash receipts or disbursements or in any other manner.

Budget cycle

The budget cycle is defined by two main principles:

- planning revenue and expenditure through the publication of the *Budget Speech* and the tabling of the *Expenditure Budget;* and
- monitoring changes in revenues and implementing the expenditure budget.

Consolidated budget balance

The consolidated budget balance represents the difference between consolidated budgetary revenue and expenditure taking into account allocations to the Generations Fund and to the budgetary reserve.

Consolidated Revenue Fund

The Consolidated Revenue Fund consists of funds collected or received from various sources and over which Parliament has a right of allocation. The Fund is constituted by the National Assembly, persons designated by the National Assembly, departments as well as the budget-funded agencies listed in Schedule 1 of the *Financial Administration Act.*

Consolidation methods

Line-by-line consolidation method

The accounts of the Consolidated Revenue Fund and the other entities included in the Government reporting entity, other than Government enterprises and organizations of the health and social services and the education networks, are harmonized according to the government's accounting policies and combined, line by line. Inter-entity transactions and balances are eliminated.

Glossary (cont'd)

Modified equity method

Investments in Government enterprises and the accounts of the health and social services and the education networks are recorded using this method. In the case of enterprises, investments are recorded at cost, which is adjusted annually by the Government's share in the results of these enterprises, with an offsetting entry to revenue, and in the other components of their comprehensive income, with an offsetting entry to accumulated deficits. The cost of the investment is reduced by declared dividends. This method requires no harmonization of the accounting policies of enterprises with those of the Government.

In the case of the accounts of organizations of the health and social services and the education networks, their net equity representing the total of their financial and non-financial assets less their liabilities, is recorded as a component of the net investment in the health and social services and the education networks. The annual surplus or deficit of the organizations is recorded in the expenditures of the mission concerned. This consolidation is done on the basis of the financial statements of the organizations, after adjusting to eliminate the major differences between their accounting policies and those of the Government.

Debt representing accumulated deficits

The debt representing accumulated deficits corresponds to the portion of the net debt relating to the accumulation of deficits over prior fiscal years.

Derivative instruments

Instruments whose value fluctuates depending on an underlying interest, regardless of whether the underlying interest is actually held or issued.

Direct debt

Direct debt corresponds to borrowings contracted on financial markets to meet the financial requirements of the Consolidated Revenue Fund and consolidated organizations, excluding those of the health and social services and the education networks and of the municipal bodies.

Financial assets

Assets that could be allocated to repaying existing debts or to funding future activities and that are not intended to be consumed in the normal course of the Government's activities.

Glossary (cont'd)

Financial instruments

Liquid assets, equity securities in an entity, or contracts that are both a source of financial assets for one of the two contracting parties and a source of financial liabilities or equity instruments for the other contracting party.

Generations Fund

The Generations Fund was created on January 1, 2007 under the *Act to reduce the debt and establish the Generations Fund*. Under this act, the Minister of Finance invests the amounts constituting the Fund with the Caisse de dépôt et placement du Québec. The Fund is used exclusively to repay the Government's debt.

Government accounting policies

The Government's accounting policies define how financial transactions are recorded in its books and adequately reported to the general public. These policies were enacted by a decision of the Conseil du trésor.

Gross debt

The gross debt corresponds to the total of the direct debt, the debt to fund the health and social services and the education networks, the debt to fund the work of municipal bodies and the net liability of the retirement plans, in addition to future social benefits. The balance of the Generations Fund is subtracted from this amount.

Gross domestic product (GDP)

The value of all goods and services produced within the geographical limits of a country or a territory during a given period.

Indicators

Tools of measurement that make it possible to monitor and assess the attainment of an objective, the implementation of a strategy or the accomplishment of a task or an activity.

Missions

The basic activity areas of a government that constitute its raison d'être. In Québec, there are six missions: Health and Social Services, Education and Culture, Support for Individuals and Families, Economy and Environment, Administration and Justice, and Debt Service.

Glossary (cont'd)

Net debt

The net debt corresponds to the difference between the Government's financial assets and its liabilities. It consists of accumulated deficits and non-financial assets.

Net financial requirements

Net total cash and cash equivalents required for operating and investing activities.

Non-financial assets

Assets that normally do not generate cash capable of being used to repay existing debts.

Own-source revenue

Total own-source revenue consists of revenue from income and property taxes, consumption taxes, duties, permits and miscellaneous revenue, Government enterprises and the Generations Fund.

Pre-financing

Borrowings made by the Consolidated Revenue Fund during a fiscal year that will be used to meet the financial requirements of the next fiscal year.

Reporting entity

The Government's reporting entity encompasses the financial transactions of the National Assembly, persons designated by the National Assembly, departments and any organizations, funds and enterprises under the Government's control. Control is defined as the power to direct the financial and administrative policies of an entity, such that its activities provide the Government with expected benefits or expose it to a risk of loss.

Retirement Plans Sinking Fund (RPSF)

Under the *Financial Administration Act*, the Minister of Finance may make long-term investments by depositing money from the Consolidated Revenue Fund with the Caisse de dépôt et placement du Québec, up to an amount equal to the sums recorded as the pension plans liability, in order to create a sinking fund to provide for the payment of all or part of the benefits awarded under these plans.

Glossary (cont'd)

Total debt

Concept used for the purposes of the *Act to reduce the debt and establish the Generations Fund* and for the purposes of analysis of the financial statements, the Government's total debt consists of the direct debt, excluding advance borrowings and deferred exchange gains or losses, and the net pension plans liability minus the amounts accumulated in the Generations Fund.

- The Retirement Plans Sinking Fund, an asset created in order to pay the pension benefits of public and parapublic sector employees, is subtracted from the pension plans liability.
- The debt to fund the health and social services and the education networks, the debt to fund the work of municipal bodies and the debt resulting from the change in status of organizations under the accounting reform are excluded from the direct debt.

Transfer

Funds transferred by a government to an individual, an organization or another government, on account of which the government that makes the transfer:

i) does not receive any goods or services in return, contrary to what occurs in purchase/sale transactions;

ii) does not plan to receive income, as it would with an investment.

SECTION 1

ANALYSIS OF FINANCIAL STATEMENTS

1. Accounting reform

When she tabled the *2007-2008 Budget*, the Minister of Finance set up a Task Force on Government Accounting to propose a reform of its accounting practices. The Task Force, consisting of representatives from the Ministère des Finances, the Comptroller of Finance and the Auditor General, began its work in June 2007 and submitted its report in December 2007. The government has announced that it will act on all the recommendations in the report.

Under the accounting reform, whose main items are described in note 3 to the consolidated financial statements, the health and social services and the education networks will in particular be incorporated into the Government reporting entity and the Government's accounting policies will comply with public sector generally accepted accounting principles (GAAP).

However, the impacts of this reform had not been anticipated in the initial forecasts shown in the *2006-2007 Budget*. In addition, the comparative figures for March 31, 2006, have not been adjusted to reflect the changes made to the accounting policies, since, in particular, the effort required to obtain the necessary financial data would be unreasonable, in view of the scope of the reform. Accordingly, care must be taken in comparing the real results for March 31, 2007, with the forecast results in the budget, and with the real results for March 31, 2006, because part of the observed differences is due to these accounting changes.

The accounting reform has had the following effects on various items of the financial statements of this fiscal year:

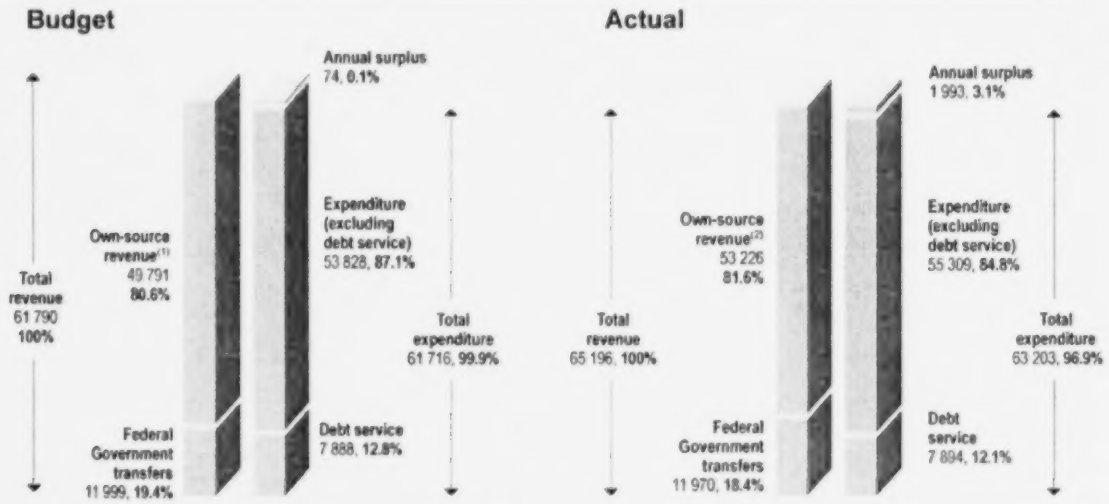
	Increase (decrease) (in millions of dollars)
Accumulated deficits as at April 1, 2006	6 426
Operating results	
Revenue	609
Program spending	248
Debt service	264
Surplus for the fiscal year	97
Financial position as at March 31, 2007	
Financial assets	(1 110)
Debt	13 556
Other liabilities	4 018
Net debt	18 684
Net investment in the networks	9 883
Fixed assets and other non-financial assets	2 472
Accumulated deficits at the end	6 329

The impacts of the accounting reform are also shown separately in the table in section 5, page 23.

2. Highlights for the fiscal year

- Real gross domestic product (GDP) for 2006 grew by 1.7%, while the *2006-2007 Budget* forecast an increase of 2.5%.
- Actual results show an annual surplus of $1 993 million.
- Total revenues were $65 196 million, up $3 406 million from the March 23, 2006 budget and up 8.6% from fiscal 2005-2006.
- Consolidated expenditure amounts to $63 203 million, or $1 487 million more than forecast on March 23, 2006. This represents an increase of 5.4% compared with the previous fiscal year.
- The $1 993 million annual surplus made it possible to allocate $584 million to the Generations Fund and $1 300 million to the reserve for use in the years to come. Consequently, after the amounts allocated to the Generations Fund and the reserve, the budget balance was $109 million.
- Consolidated financial requirements were $2 826 million, up $2 331 million from the *2006-2007 Budget*. The bulk of this difference is due to the effects of the accounting reform.
- The Government's total debt has been revised upward by $1 477 million since the Budget of March 23, 2006.

2007


Budget
Total revenue 61 790 100%
Own-source revenue(1) 49 791 80.6%
Federal Government transfers 11 999, 19.4%
Annual surplus 74, 0.1%
Expenditure (excluding debt service) 53 828, 87.1%
Debt service 7 888, 12.8%
Total expenditure 61 716, 99.9%
Actual
Total revenue 65 196, 100%
Own-source revenue(2) 53 226 81.6%
Federal Government transfers 11 970, 18.4%
Annual surplus 1 993, 3.1%
Expenditure (excluding debt service) 55 309, 84.8%
Debt service 7 894, 12.1%
Total expenditure 63 203, 96.9%

(1) Including revenue of $74 million of the Generations Fund.

(2) Including revenue of $584 million of the Generations Fund

3. Overview of the *2006-2007 Budget*

In the *2006-2007 Budget*, the Government committed itself to maintaining a balanced budget.

Own-source revenue, excluding revenue from Government enterprises and the Generations Fund, was expected to grow by 3.2%. This growth takes into account the full impact of the income tax reductions announced in the *Budget 2006-2007* and previous budgets. This forecast also reflected the impact of the measures announced in the past two years in order to support economic growth.

Revenue from Government enterprises was forecast to grow by 6.7%. This increase, compared with the results achieved in 2005-2006, was based mainly on the anticipated rise in the profits of Hydro-Québec and the Société des alcools du Québec.

The *2006-2007 Budget Speech* announced the creation of the Generations Fund in order to tackle the debt problem. At March 31, 2007, the Fund balance was $74 million.

Revenue from Federal Government transfers was expected to grow by 8.3% in 2006-2007. This forecast stemmed notably from the Federal Government's November 8, 2005 decision to increase Québec's share of the equalization payment budget to reflect more recent taxation and economic data.

The *2006-2007 Budget* forecast that program spending would grow by 3.9%. This forecast presented a growth rate that was less than the nominal GDP, estimated at 4.2% and was similar to the growth observed over the past three years.

In addition, the Government continued to include health and education among its main priorities. The Budget Speech of March 23, 2006 announced an increase of over $1.3 billion in the health budget and over $600 million in the education budget. For fiscal 2006-2007, the spending forecasts for the "Health and Social Services" mission and the "Education and Culture" mission were $22.9 billion and $13.7 billion, respectively.

The cost of debt service was expected to rise 5.2%. The growth envisaged was due primarily to the increase in interest rates.

4. Risks and uncertainties

The Government establishes its annual budget on the basis of economic forecasts. Any changes observed, particularly with regard to growth in the economy, the Consumer Price Index or interest rates, can cause actual results to differ from those forecast. For example, a 1% difference in nominal GDP has an impact of about $450 million on the Government's own-source revenue.

Federal Government transfers, which represented more than 18% of the Government's total revenue in 2006-2007, are affected by revisions of economic, taxation or population data and by negotiations with the Federal Government, both of which are carried out on a regular basis. These revisions and negotiations can affect the level of revenue from Federal Government transfers.

As regards program spending, the level of spending allocated to certain programs is also related to the economic situation: for example, changes in the labour market affect the cost of employment assistance and income security programs. Similarly, in the health sector, the aging of the population raises the risk of cost overruns for medication and public services.

In addition, fluctuations in interest rates and in the value of the Canadian dollar in relation to the other currencies that make up the debt have an impact on debt service.

Lastly, the Government is faced with pending or potential claims and lawsuits, which are discussed in Note 11 of the financial statements.

5. Variance analysis

Consolidated summary of operations
FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

			Change compared with Budget				Change compared with previous fiscal year		
	Budget Speech of March 23, 2006 [1]	Actual results as at March 31, 2007 [1]	Impact of the accounting reform	Total change		Actual results as at March 31, 2006 [1]	Impact of the accounting reform	Total change	
				$	%			$	%
Own-source revenue [2]	44 959	46 914	610	1 955	4.3	44 342	610	2 572	5.8
Revenue from Government enterprises	4 758	5 728	1	970	20.4	4 554	1	1 174	25.8
Revenue from the Generations Fund [3]	74	584	8	510	n/a	–	8	584	n/a
Own-source revenue	49 791	53 226	619	3 435	6.9	48 896	619	4 330	8.9
Federal Government transfers	11 999	11 970	(10)	(29)	(0.2)	11 122	(10)	848	7.6
Total revenue	**61 790**	**65 196**	**609**	**3 406**	**5.5**	**60 018**	**609**	**5 178**	**8.6**
Expenditure (excluding debt service)									
Health and Social Services	22 883	23 782	135	899	3.9	22 274	135	1 508	6.8
Education and Culture	13 666	13 436	(130)	(230)	(1.7)	13 130	(130)	306	2.3
Other missions [4]	17 279	18 091	243	812	4.7	17 018	243	1 073	6.3
	53 828	55 309	248	1 481	2.8	52 422	248	2 887	5.5
Debt service	7 888	7 894	264	6	0.1	7 559	264	335	4.4
Total expenditure	**61 716**	**63 203**	**512**	**1 487**	**2.4**	**59 981**	**512**	**3 222**	**5.4**
ANNUAL SURPLUS	**74**	**1 993**	**97**	**1 919**	**n/a**	**37**	**97**	**1 956**	**n/a**

(1) These data include, in addition to the Consolidated Revenue Fund, the revenue and expenditure of specified purpose accounts and the Government's organizations and special funds and, for the real results as at March 31, 2007, the annual deficit of the health and social services and the education networks.
(2) These figures exclude revenue from Government enterprises and of the Generations Fund.
(3) The Generations Fund became operational on January 1, 2007.
(4) The other missions are: "Economy and Environment", "Support for Individuals and Families", and "Administration and Justice".

5. Variance analysis (cont'd)

Consolidated revenue

Comparison of actual results with the Budget

Own-source revenue, excluding revenue from Government enterprises and the Generations Fund, is $1 955 million more than forecast in the *2006-2007 Budget*. This rise consists of increases with respect to income and property taxes, duties, permits and miscellaneous revenue, which are offset in part by a drop in consumption taxes. It also includes an impact of $610 million relating to the accounting reform.

The $970-million increase in revenue from Government enterprises, minus the $500 million allocated to the Generations Fund, is attributable primarily to the additional profits earned by Hydro-Québec through gains on the sale of shares abroad.

The variation in revenue from Federal Government transfers compared to the Budget is $29 million and:

- results from the $219-million increase in transfers to the Consolidated Revenue Fund due essentially to additional revenue of $185 million from equalization under the federal budget of May 2006;

- is offset by the $248-million decrease in transfers allocated to consolidated organizations and specified purpose accounts due primarily to delays in projects to be subsidized by the Société de financement des infrastructures locales du Québec and which also benefit from contributions from the Federal Government.

5. Variance analysis (cont'd)

Consolidated revenue

Comparison of actual results with the previous fiscal year

The increase of $4 330 million, or 8.9%, in own-source revenue can be attributed mainly to the following factors:

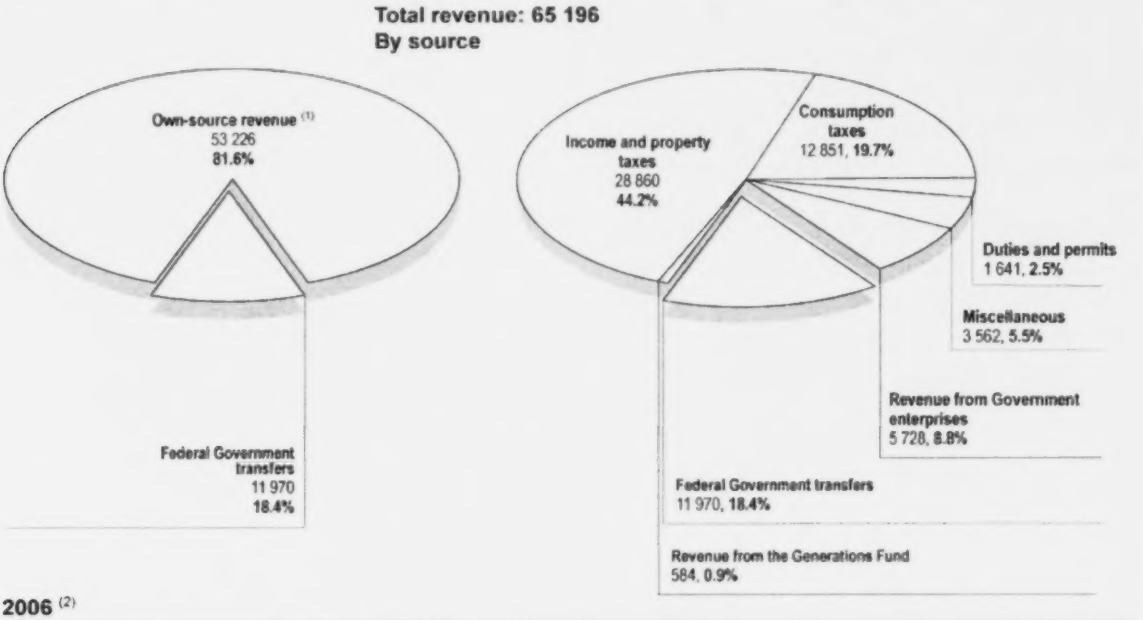
- $2 030 million or 12.3% in additional revenue from personal income taxes. This upturn reflects, notably:
  - high taxation receipts linked to the steady growth of economic activity;
  - the adjustment of the breakdown of payroll deductions and tax instalments from the Health Services Fund (HSF) and the Régie des rentes du Québec (RRQ) to reflect actual data. An estimated basis for breakdown is used when deductions or instalments are cashed and annual reconciliation allows the necessary adjustments to be made;
  - the impact of retroactive pay equity adjustments paid to Government employees before March 31, 2007;
  - the change in accounting policy under the reform, designed to recognize revenue on an accrual accounting basis.

- $1 720 million, an increase of over 74.0%, in revenue from Hydro-Québec, resulting notably:
  - from earnings totalling more than $900 million on the sale of this Government enterprise's investments in foreign businesses;
  - from additional profits resulting from earnings on exchange rates.

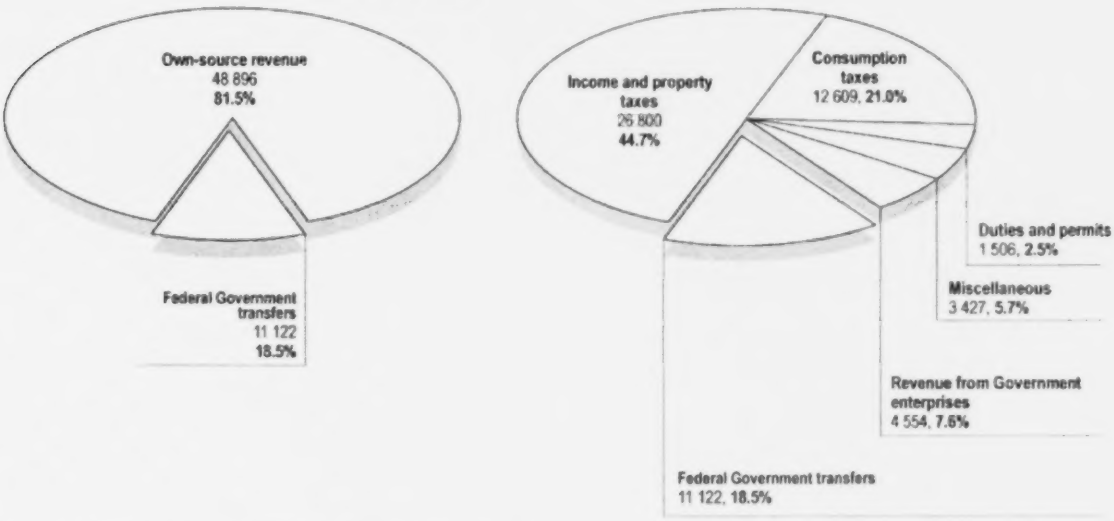
5. Variance analysis (cont'd)

Consolidated revenue
FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

2007



2006 (2)



(1) Including revenue of $584 million allocated to the Generations Fund.

(2) The comparative figures for 2006 have not been restated to reflect the changes in accounting policies. Certain figures were reclassified, however, for consistency with the presentation adopted in 2007.

5. Variance analysis (cont'd)

Consolidated expenditure

Comparison of actual results with the Budget

For 2006-2007, consolidated expenditure excluding debt service is $1 481 million higher than forecast in the *2006-2007 Budget*. Program spending was revised upward to take into account, among other things:

- a $339-million increase in expenditures by consolidated agencies and specified purpose accounts. This increase stems in particular from the addition of the expenditures of a few agencies, formerly considered Government enterprises and whose status has been changed under the accounting reform;

- the $338-million increase in the Ministère de la Santé et des Services sociaux budget to reflect, notably, additional prescription drug insurance and medical services costs;

- the $273-million increase in the expenditure for the provision for doubtful debts to Revenu Québec, mainly as a recurring expenses recognized at the 2005-2006 fiscal year-end;

- the $242-million impact of the Commission de l'équité salariale's decision to spread the wage adjustments resulting from the pay equity settlement over seven payments and six years;

- the incorporation of the health and social services and the education networks within the Government reporting entity. The deficit of the health and social services and the education networks for fiscal year 2006-2007 is $219 million.

Debt service is comparable with what was forecast. However, since the changes to the accounting policies resulted in a rise of $264 million, expenditure is in fact down compared to the forecast. This decrease results primarily from the fact that medium- and long-term interest rates were lower than forecast and that the Canadian dollar performed more favourably than expected compared to the yen and U.S. dollar.

5. Variance analysis (cont'd)

Consolidated expenditure

Comparison of actual results with the previous fiscal year

The increase of $2 887 million, or 5.5%, in expenditure excluding debt service can be attributed primarily to the following factors:

- a rise of $1 508 million, or 6.8%, in the "Health and Social Services" mission, for the Government's commitment to continue to maintain health investment as a top priority. This increase results notably from the growth in the cost of programs and new collective agreements, including adjustments related to pay equity;

- a rise of $306 million, or 2.3%, in the "Education and Culture" mission, to, notably, add hours of teaching time at the elementary level and improve support for students experiencing difficulties;

- an increase of $1 073 million, or 6.3%, in "Other missions," caused notably by:
  - the addition of the expenditures of a few agencies whose status has been changed under the accounting reform;
  - recognition of the retroactive wages to be paid to Québec judges following a recent Superior Court ruling;
  - the cost of developing the network of day care centers (CPE);
  - the impact on the annual expenditure budget of the Ministère des Transports of increasingly large investments on the road network;
  - the cost of the general elections held in March 2007.

Lastly, the debt service expenditure is $335 million higher than in 2005-2006. The changes to the accounting policies resulted in an increase in expenditure of $264 million, due in particular to the addition of the debt service of a few agencies whose status has been changed. The difference results from the increase in the amount of the debt, though that is offset by additional interest income generated by the growth of the Retirement Plans Sinking Fund.

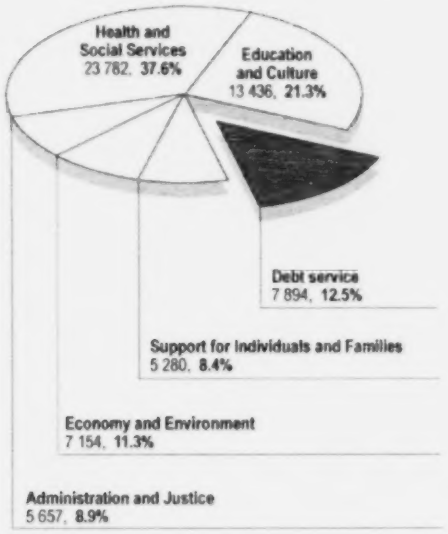
5. Variance analysis (cont'd)

Consolidated expenditure

FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

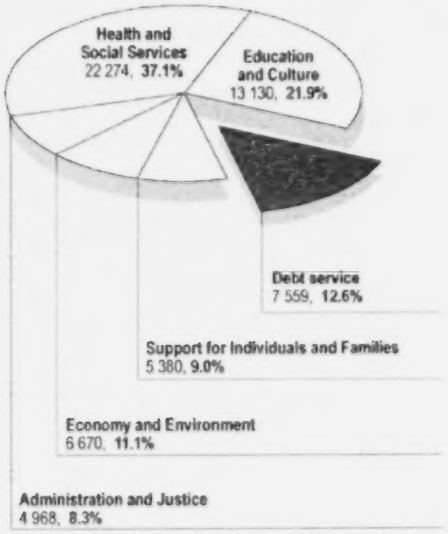
2007

Total expenditure: 63 203
By mission


Health and Social Services 23 782, 37.6%
Education and Culture 13 436, 21.3%
Debt service 7 894, 12.5%
Support for Individuals and Families 5 280, 8.4%
Economy and Environment 7 154, 11.3%
Administration and Justice 5 657, 8.9%

2006 (1)

Total expenditure: 59 981
By mission


Health and Social Services 22 274, 37.1%
Education and Culture 13 130, 21.9%
Debt service 7 559, 12.6%
Support for Individuals and Families 5 380, 9.0%
Economy and Environment 6 670, 11.1%
Administration and Justice 4 968, 8.3%

(1) The comparative figures for 2006 have not been restated to reflect the changes in accounting policies. Certain figures were reclassified, however, for consistency with the presentation adopted in 2007.

5. Variance analysis (cont'd)

Consolidated net financial requirements

Compared to the *2006-2007 Budget*, consolidated net financial requirements have risen by $2 331 million, chiefly as a result of the unanticipated impact of the accounting reform. Although the annual surplus exceeded the forecast of $1 919 million, the changes to the accounting policies largely contributed to the additional requirements of $4 250 million reflected in non-budgetary transactions. These additional requirements stem mainly from:

- an increase in requirements of $2 929 million under the heading "Other accounts" attributable essentially to the change in accounts receivable and payable and expenses payable. This change stems in particular from the move to accrual accounting for income and property tax revenue, consumption taxes and duties and permits, as well as from the retroactive payment of pay equity adjustments to provincial employees in March 2007 ;
- requirements of $1 221 million under the heading "Loans and advances to the networks". This amount, included further to the accounting reform, corresponds to the advances made during the fiscal year to entities of the health and social services and the education networks;
- an increase in requirements of $651 million under the heading "Investments, loans and advances". This change is due in particular to the fact that only a fraction of the additional profits earned by Hydro-Québec was paid to the government as dividends.

Consolidated net financial requirements
FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

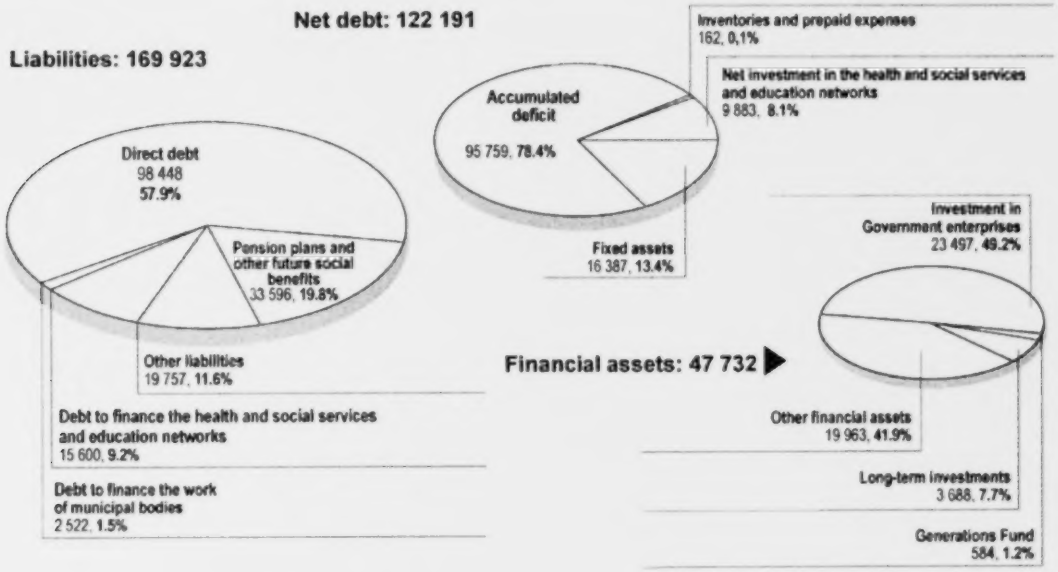
	Budget Speech of March 23, 2006	Actual data	Change compared with Budget
Annual surplus	**74**	**1 993**	**1 919**
Consolidated non-budgetary transactions			
Investments, loans and advances	(1 495)	(2 146)	(651)
Annual deficit of the networks	–	219	219
Loans and advances to the networks	–	(1 221)	(1 221)
Fixed assets	(1 249)	(1 219)	30
Pension plans	2 257	2 559	302
Other accounts	(82)	(3 011)	(2 929)
Consolidated non-budgetary transactions	**(569)**	**(4 819)**	**(4 250)**
CONSOLIDATED NET FINANCIAL REQUIREMENTS	**(495)**	**(2 826)**	**(2 331)**

5. Variance analysis (cont'd)

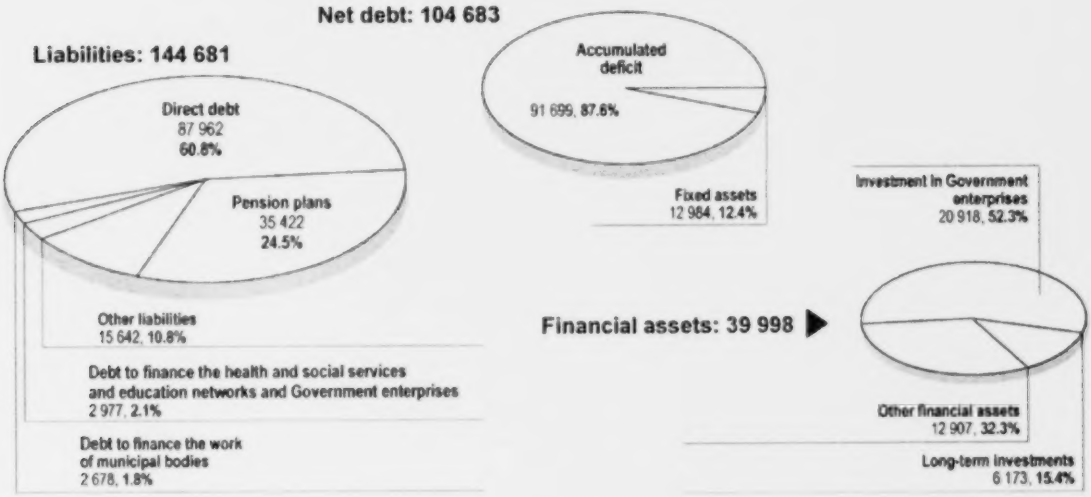
Government's financial assets and liabilities

AS AT MARCH 31, 2007
(in millions of dollars)

2007



2006 (1)



(1) The comparative figures for 2006 have not been restated to reflect the changes in accounting policies. Certain figures were reclassified, however, for consistency with the presentation adopted in 2007.

5. Variance analysis (cont'd)

Government's financial assets and liabilities

Comparison of actual results with the previous fiscal year

The difference between the Government's financial assets and its liabilities corresponds to the **net debt**. As at March 31, 2007 the net debt amounted to $122 191 million, up $17 508 million from the previous fiscal year, i.e. $227 million resulting from transactions in fiscal 2006-2007 and $17 281 million resulting from accounting restatements further to the reform, mostly due to the integration within the reporting entity of agencies that fund the health and social services and the education networks.

Financial assets grew by $7 734 million in fiscal 2006-2007. This is attributable essentially to an increase of $3 860 million in accounts receivable, a rise of $3 197 million in short-term investments and an accumulated amount of $584 million in the Generations Fund. The details of financial assets are shown in appendices 8 to 12 of the consolidated financial statements.

The Government's **liabilities** consist mainly of direct debt, pension plans, debt contracted to finance the networks, and accounts payable and accrued expenses. In fiscal year 2006-2007, the increase in the Government's liabilities is attributable chiefly to the $10 486-million rise in its direct debt, including $6 069 million of advance borrowings, and the addition, further to the accounting reform, of $12 623 million to the debt to fund the networks, to reflect, in particular, the change in status of Financement-Québec following the inclusion of the health and social services and the education networks within the government reporting entity.

The table on the following page shows the change in the Government's debt compared with the forecast in the *2006-2007 Budget* and the change compared with the previous fiscal year.

5. Variance analysis (cont'd)

Change in the Government's debt

FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

	Budget Speech of March 23, 2006	Actual results as at March 31, 2007	Change compared with Budget	Actual results as at March 31, 2006	Change compared with previous year
Direct debt	**n/a**	**98 448**	**n/a**	**87 962**	**n/a**
Advance borrowings	n/a	(6 069)	n/a	(2 684)	(3 385)
Deferred foreign exchange losses (gains)	n/a	(1 885)	n/a	(1 606)	(279)
Debt resulting from the change in status of agencies under the accounting reform	n/a	(154)	n/a	n/a	n/a
Direct debt excluding advance borrowings and deferred exchange losses (gains)	**87 680**	**90 340**	**2 660**	**83 672**	**6 668**
Pension plans liability	59 050	59 721	671	57 193	2 528
Retirement Plans Sinking Fund	(25 533)	(26 877)	(1 344)	(22 563)	(4 314)
Net pension plans liability	**33 517**	**32 844**	**(673)**	**34 630**	**(1 786)**
Generations Fund	**(74)**	**(584)**	**(510)**	**–**	**(584)**
TOTAL DEBT [1]	**121 123**	**122 600**	**1 477**	**118 302**	**4 298**
Debt to finance the health and social services and the education networks	n/a	15 569 [2]	n/a	n/a	n/a
Debt to finance the work of municipal bodies	2 651	2 522	(129)	2 678	(156)
Debt resulting from the change in status of agencies under the accounting reform	n/a	154	n/a	n/a	n/a
Future social benefits	n/a	752	n/a	792	n/a
GROSS DEBT	**n/a**	**141 597**	**n/a**	**n/a**	**n/a**

(1) For the purposes of the *Act to reduce the debt and establish the Generations Fund*.
(2) Excluding $31 million for a fiduciary and a non-profit organization.

5. Variance analysis (cont'd)

Change in the Government's total debt

Comparison of actual results with the Budget

The upward adjustment of $1 477 million to the total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund* forecast in the *2006-2007 Budget* is attributable mainly to retroactive adjustments relating to pay equity totalling $1 397 million that were disbursed in March 2007.

Comparison of actual results with the previous fiscal year

As at March 31, 2007, the total debt for the purposes of the *Act to reduce the debt and establish the Generations Fund* of the Government stood at $122 600 million, up $4 298 million compared to March 31, 2006. This increase is attributable in particular to:

- the increase of $1 953 million in the interest in Government enterprises, particularly Hydro-Québec, essentially due to the portion of earnings not paid as dividends;

- the total investment of $2 373 million in fixed assets that, after deducting depreciation and reductions in value of $1 154 million, raised its net value by $1 219 million;

- retroactive adjustments relating to pay equity totalling $1 397 million that were disbursed in March 2007.

6. Allocation of the annual surplus

Consolidated budget balance

The Gouvernement du Québec adopted legislation to maintain a strict budget balance yet allowing some flexibility in order to deal with important events that might affect financial balances.

To do so, virtually the entire $1 993-million annual surplus presented as at March 31, 2007 was allocated to the Generations Fund and the reserve.

Consequently, the consolidated budget balance after the amount allocated to the Generations Fund and the reserve is $109 million.

Consolidated budget balance
(in millions of dollars)

	2007		2006
	Budget	Actual data	Actual data
Annual surplus	74	1 993	37
Revenue of the Generations Fund	(74)	(584)	--
Allocation to the reserve	--	(1 300)	--
Consolidated budget balance after amounts allocated to the Generations Fund and the reserve	--	109	37

6. Allocation of the annual surplus (cont'd)

Generations Fund

In the March 2006 Budget, the Government estimated Generations Fund revenue at $74 million in 2006-2007. Given an additional payment of $500 million from the earnings of Hydro-Québec's sale of its share in Transelec Chile, the amounts accumulated in the Fund reached $584 million at March 31, 2007.

Revenue of the Generations Fund at the end of fiscal 2006-2007 breaks down as follows:

Revenue[1]
(in millions of dollars)

	2007	
	Budget	**Actual results**
Own-source revenue		
Water-power royalties	73	76
Unclaimed property	--	5
Investment income		
Revenue from participation deposits	1	2
Revenue from demand deposits	--	1
Total own-source revenue	**74**	**84**
Revenue allocated by the Government		
Revenue from the sale of Hydro-Québec's share in Transelec Chile	--	500
Revenue	**74**	**584**

(1) No comparative data are presented since the Generations Fund became operational on January 1, 2007.

6. Allocation of the annual surplus (cont'd)

Reserve

Under the *Act to establish a budgetary surplus reserve fund (R.S.Q., c. R-25.1)*, the Government set up a reserve to finance fixed assets projects and other projects to be completed within a fixed period of time. However, when the Government believes that it is in the public interest to do so, it can use the reserve for projects other than those for which it was created. Further, the Government may allocate all or part of the reserve maintaining a balanced budget.

In the Budget Speech, the Minister of Finance determines the portion of the surplus for the fiscal year exceeding the budgetary objective to be allocated to the reserve and the amounts to be allocated to the different components.

In the *2007-2008 Budget Speech*, the Minister announced that a $1 300 million surplus of revenue over expenditure was allocated to the reserve.

In 2007-2008, the Government intends to pay an additional $200 million into the Generations Fund from the amounts allocated to the budgetary reserve in 2006-2007. The reserve balance, i.e. $1 100 million, is slated for use to maintain a balanced budget in 2008-2009

Reserve
(in millions of dollars)

	Additional payment to the Generations Fund	Maintenance of a balanced budget	2007	2006
Opening balance	--	--	--	--
Allocation to the reserve	200	1 100	1 300	--
Closing balance	**200**	**1 100**	**1 300**	--

7. Results of the indicator analysis

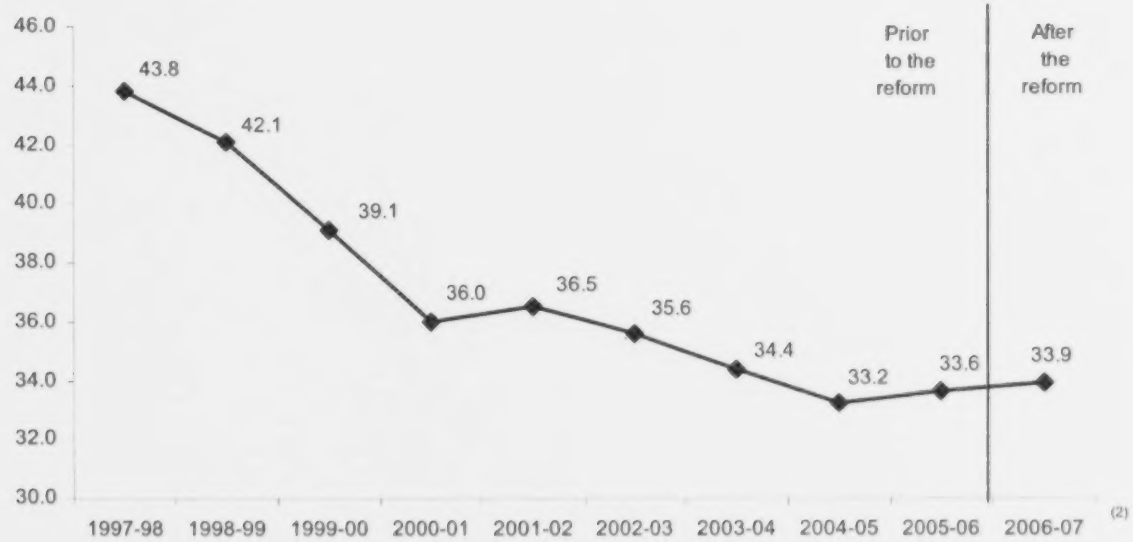
The financial indicator analysis shows that the state of the Government's finances has improved since 1997-1998. Indeed, the indicators reveal that the Government's ability to meet its commitments is greater than before. Moreover, the financial risk management policy has made the Government less vulnerable to foreign exchange rate fluctuations on financial markets.

Indicator 1: Debt representing accumulated deficits to gross domestic product (GDP)

The indicator of the debt representing accumulated deficits of the government to GDP illustrates the degree of indebtedness in relation to the portion of the net debt relating to the accumulation of deficits over prior fiscal years of the government.

Since 1998, the indicator of the debt representing accumulated deficits to GDP has consistently improved, from 43.8% as at March 31, 1998 to 33.6% as at March 31, 2006. After the accounting reform, it stands at 33.9% as at March 31, 2007. This reduction in the weight of the debt in the economy stems from the fact that a balanced budget was maintained in a context of sustained economic growth over that period.

DEBT REPRESENTING ACCUMULATED DEFICITS [1]
(as a % of GDP)



(1) Prior to the allocation of the amounts to the reserve.
(2) After taking the net results of the Generations Fund into account.

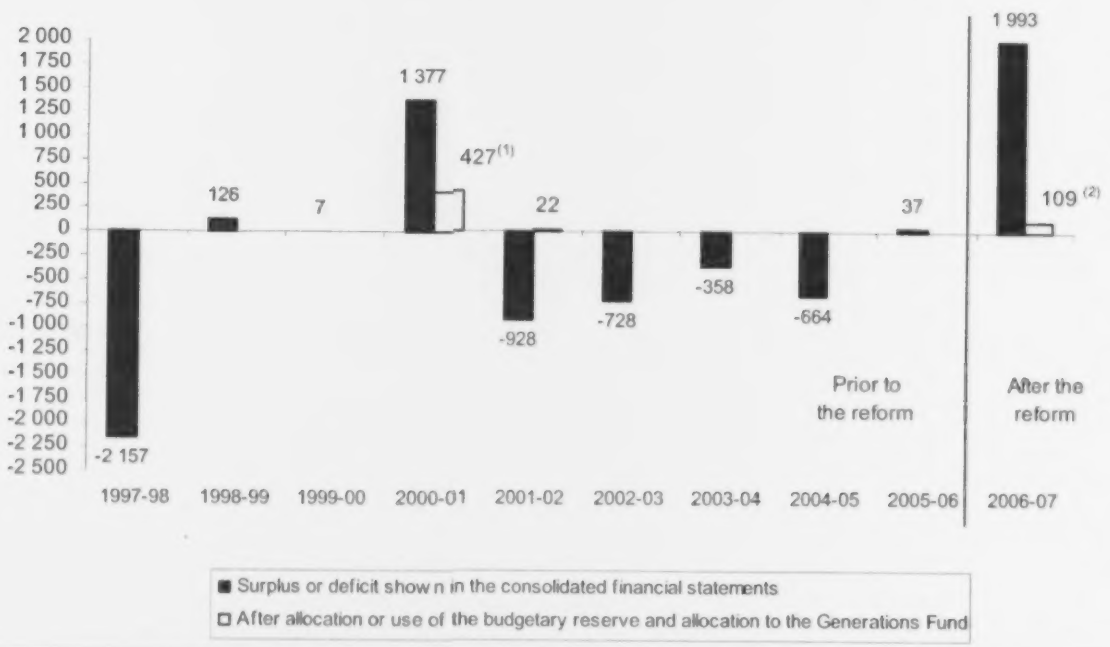
7. Results of the indicator analysis (cont'd)

Indicator 2: Change in consolidated budget balance

The consolidated budget balance represents the difference between consolidated budgetary revenue and expenditure. The change in the consolidated budget balance shows the extent to which the Government is able to meet its annual financial obligations from its revenue (own-source revenue and federal transfers). It also shows the extent to which the Government can meet its balanced budget forecasts.

In keeping with the commitment it made by adopting the *Act respecting the elimination of the deficit and a balanced budget (R.S.Q. c. E-4.01)*, now called the *Balanced Budget Act (R.S.Q., c. E-12.00001)*, the Government is targeting a balanced budget. Indeed, the deficits posted from 2001-2002 to 2004-2005 offset the budgetary surplus achieved in 2000-2001. It should be noted that Section 9 of the Act stipulates that "if the Government achieves a surplus in a fiscal year, it may incur overruns in subsequent fiscal years up to the amount of that surplus." For 2006-2007, the Government posted a $109-million surplus, after allocations to the Generations Fund and the reserve.

CONSOLIDATED BUDGET BALANCE
(in millions of dollars)



(1) An amount of $950 million was posted to the budgetary reserve in 2000-2001 and was used in full in 2001-2002.
(2) An amount of $1 300 million was posted to the budgetary reserve in 2006-2007 and $584 million was allocated to the Generations Fund.

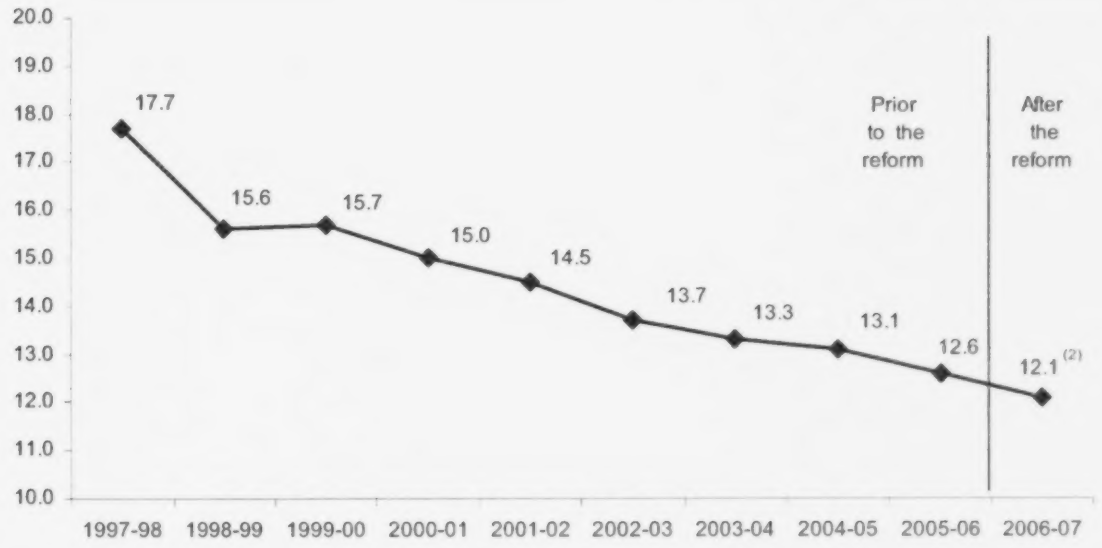
7. Results of the indicator analysis (cont'd)

Indicator 3: Debt service to total revenue

The debt service to total revenue indicator measures the Government's ability to cover the cost of its borrowings from its revenue as a whole. It shows the extent to which the borrowings contracted limit the Government's ability to meet its commitments.

As at March 31, 1998, debt service represented 17.7% of total revenue, compared with 12.1% as at March 31, 2007. This represents a decrease of close to a third of the ratio within the space of nine years.

DEBT SERVICE [1]
(as a % of total revenue)



(1) Does not include the debt service of entities of the health and social services and the education networks. Instead, transfers to cover these costs are included in program spending.

(2) For 2006-2007, the accounting reform has caused an increase in debt service of $264 million and in total revenue of $609 million. Without these impacts, the ratio would have been 11.8%.

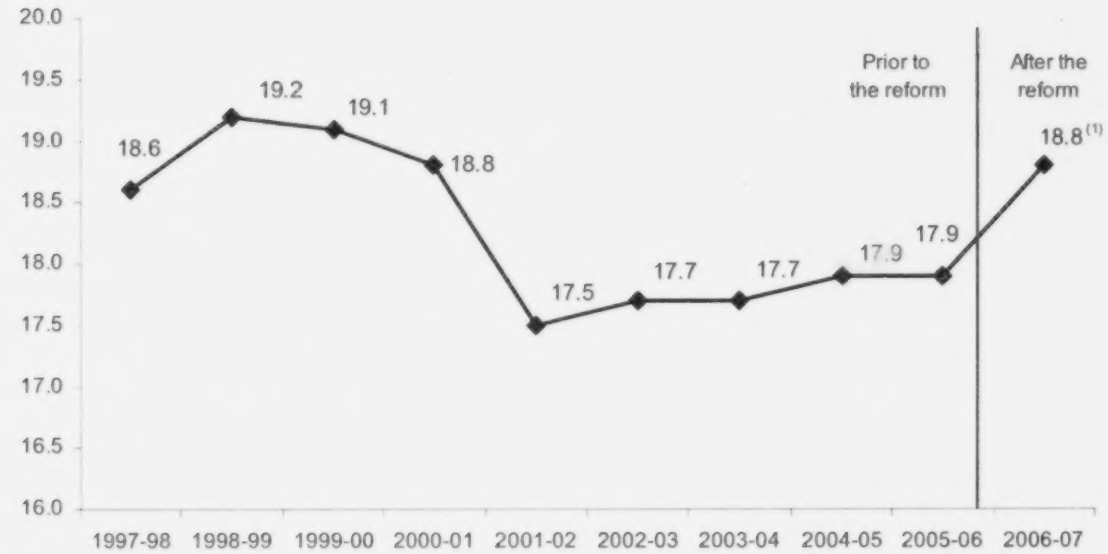
7. Results of the indicator analysis (cont'd)

Indicator 4: Own-source revenue to GDP

The own-source revenue to GDP indicator measures the proportion of collective wealth that the Government collects in the form of income tax and other taxes and of other revenue derived from its enterprises in particular. The Government's own-source revenue includes all revenue apart from transfers received from the Government of Canada.

It can be noted that this ratio dropped steadily from 1998-1999 to 2001-2002, from 19.2% of GDP to 17.5% respectively. The indicator remained stable from 2001-2002 to 2005-2006. The increase in the ratio to 18.8% in 2006-2007 is due in large part to Hydro-Québec's additional profits, resulting from the sale of investments in enterprises.

OWN-SOURCE REVENUE
(as a % of GDP)



(1) For 2006-2007, the accounting reform has caused an increase in own-source revenue of $619 million. Without this impact, the ratio would have been 18.6%.

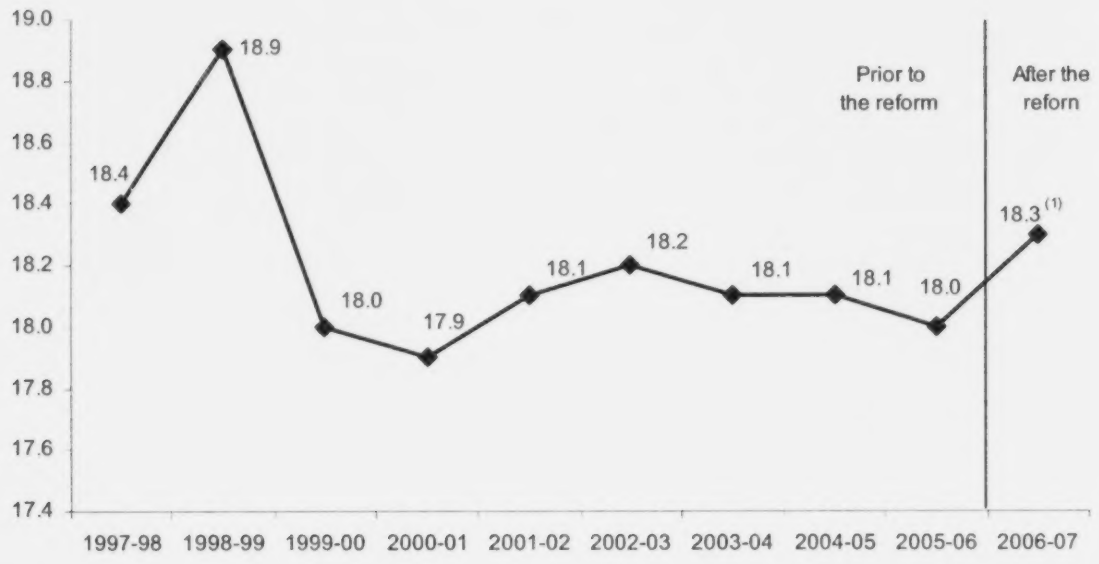
7. Results of the indicator analysis (cont'd)

Indicator 5: Program spending to GDP

The program spending to GDP indicator reveals the relative importance of the cost of public services in the economy.

Program spending as a percentage of GDP fell from 18.9% in 1998-1999 to 18.3% in 2006-2007. This means that the size of the Government has decreased in relation to collective wealth as a whole.

PROGRAM SPENDING
(as a % of GDP)



(1) For 2006-2007, the accounting reform has caused a decrease in program spending of $93 million. This impact is not sufficiently significant to cause the ratio shown to vary.

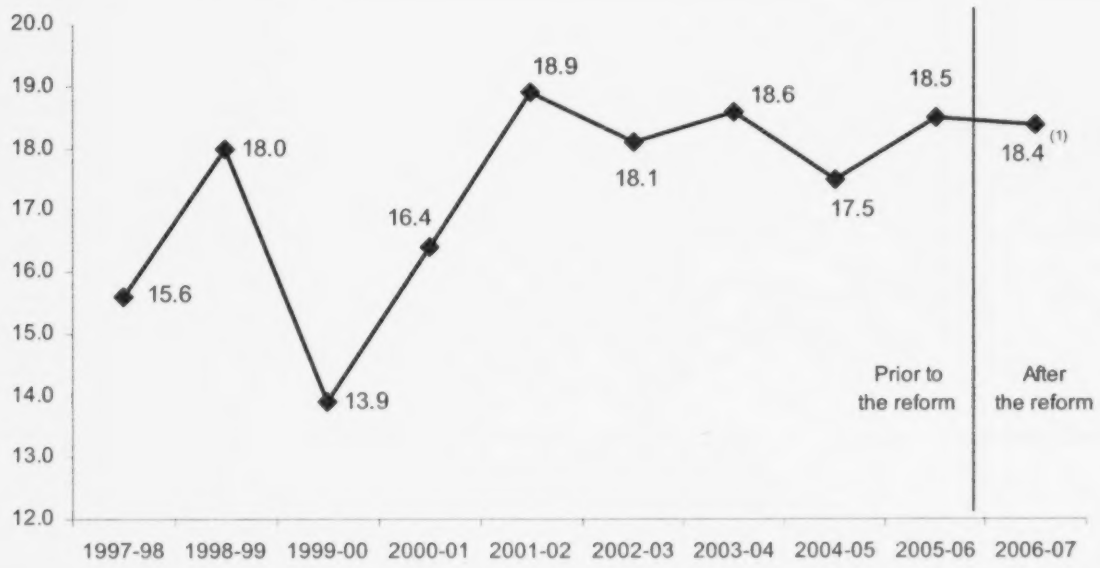
7. Results of the indicator analysis (cont'd)

Indicator 6: Transfers received from the Federal Government to total revenue

Transfers received from the Federal Government comprise equalization payments, payments from transfers for health care and for post-secondary education and other social programs, and amounts transferred by the federal government under various cost-sharing agreements. This indicator measures the portion of the Québec Government's revenue that is received from the Federal Government.

In 1999-2000, the proportion of federal transfers in total revenue was 13.9%, an historic low compared with the proportion of nearly 29% observed in 1983-1984. In 2000-2001 and 2001-2002, the proportion grew substantially, to 18.9%. Since then it has remained fairly stable, standing at 18.4% in 2006-2007.

FEDERAL TRANSFERS
(as a % of total revenue)



(1) For 2006-2007, the accounting reform has caused a decrease in federal transfers of $10 million and an increase in total revenue of $609 million. Without these impacts, the ratio would have been 18.5%.

7. Results of the indicator analysis (cont'd)

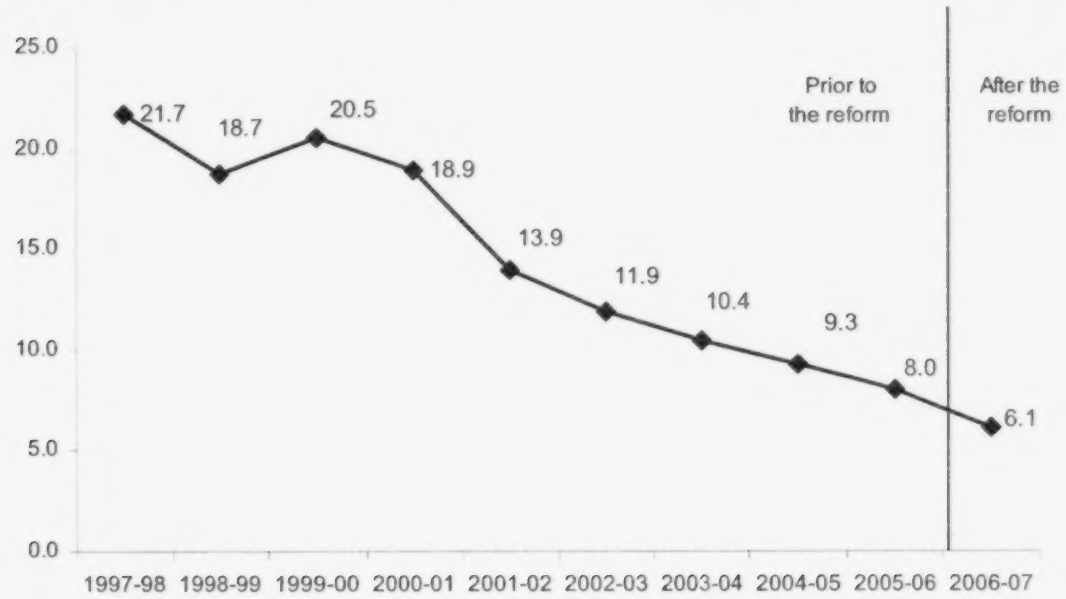
Indicator 7: Debt in foreign currency as at March 31

The debt in foreign currency indicator as a percentage of debt aims to highlight the Government's vulnerability to fluctuations in the Canadian dollar.

Since 1998, the proportion of the debt denominated in foreign currencies has fallen sharply, from 21.7% as at March 31, 1998 to 8.0% as at March 31, 2006. After the accounting reform, it stands at 6.1% as at March 31, 2007. This decrease makes the Government less vulnerable to fluctuations in the Canadian dollar in relation to other currencies.

DEBT IN FOREIGN CURRENCY AS AT MARCH 31 [1] [2]

(as a % of debt)



(1) Including borrowings made in advance and excluding the balance of deferred exchange losses (gains) and after taking into account financial instruments used by the government in managing its debt.

(2) Before the reform, the debt in foreign currencies is shown compared to the total debt, whereas after the reform, it is shown compared to the gross debt.

APPENDIX

Financial statistics

FISCAL YEAR ENDED MARCH 31, 2007

(in millions of dollars)

This table presents the trends observed over the past ten years for several financial statement items. In addition, explanatory notes identify the changes made to previous financial statements.

Fiscal year	Revenue *	Expenditure *	(Deficit) or surplus	Total debt	Net debt[1]	Non-financial assets	Accumulated deficit
2006-2007	65 196	63 203	1 993 [13]	122 600	(122 191)[11]	26 432	(95 759)
Prior to the reform of government accounting **							
2005-2006	60 018	59 981	37	118 302	(104 683)[10]	12 984	(91 699)
2004-2005	56 885	57 549	(664)	116 596	(99 042) [9]	11 818	(87 224)
2003-2004	54 530	54 888	(358)	114 725	(97 025) [8]	10 735	(86 290)
2002-2003	52 225	52 953	(728)	111 342	(95 601) [7]	9 716	(85 885)
2001-2002	50 011	50 939	(928) [12]	107 175	(92 772) [6]	8 234	(84 538)
2000-2001	50 628	49 251	1 377 [12]	104 848	(88 208) [5]	7 166	(81 042)
1999-2000	46 828	46 821	7	102 120	(89 162) [4]	6 693	(82 469)
1998-1999	46 034	45 908	126	101 113	(88 810) [3]	6 233	(82 577)
1997-1998	41 548	43 705	(2 157)	98 385	(88 597) [2]	6 016	(82 581)

* Certain figures were reclassified for consistency with the presentation adopted in 2006-2007.

** Caution must be applied in comparing the data for 2006-2007 with those of prior years because of the impact of the accounting reform.

($M: millions of dollars)

(1) Net debt represents total liabilities minus financial assets, recorded in the consolidated statement of financial position.

(2) The net debt of ($64 833 M) as at April 1, 1997 was increased by ($21 607 M), including ($13 173 M) for the recording of unrecorded pension plan obligations, ($6 889 M) for the consolidation of Government enterprises, agencies and special funds, ($731 M) for the change to the method used to record borrowings, ($461 M) for the recording of public sector restructuring measures and ($353 M) for the recording of fixed assets.

(3) The net debt was increased by ($339 M), including ($217 M) for fixed assets, ($25 M) for accounts payable and accrued expenses and ($97 M) for other accounts.

(4) The net debt was increased by ($359 M) for fixed assets.

(5) The net debt was increased by ($423 M), including ($473 M) for fixed assets, ($12 M) for sick leave and vacations and $62 M for investments in Government enterprises.

(6) The net debt was increased by ($1 386 M), including ($1 068 M) for fixed assets, $88 M for the Government's share of enterprises' foreign exchange gains or losses, ($215 M) for the correction of the error made by the Canada Customs and Revenue Agency, ($65 M) for the change in the accounting policy for certain recoveries and ($126 M) for the recording of employer contributions in respect of obligations relating to sick leave and vacations, for the change in the status of a Government enterprise and for costs related to the improvement of premises. In addition, accounting changes made by Government enterprises increased the net debt by ($2 250 M), including ($1 338 M) for foreign currency translation and ($912 M) for the introduction of a provision for deviations in the real rate of return.

(7) The net debt was increased by ($1 714 M), including ($1 482 M) for fixed assets, ($122 M) for the Government's share of enterprises' foreign exchange gains or losses and ($110 M) for a change in the application of the accounting policy for debts and an adjustment to the accounts receivable of a consolidated agency. In addition, accounting changes made by Government enterprises increased the net debt by ($387 M), including ($363 M) relating to the capping mechanism used in calculating deferred foreign exchange gains and losses on the basis of the real rate of return assumption.

(8) The net debt was increased by ($1 059 M), including ($1 019 M) for fixed assets and ($40 M) for the Government's share of enterprises' foreign exchange gains or losses. In addition, a correction of the allowance for sick leave and vacations made by a Government enterprise increased the net debt by ($7 M).

APPENDIX

Financial statistics

FISCAL YEAR ENDED MARCH 31, 2007

(in millions of dollars)

This table presents the trends observed over the past ten years for several financial statement items. In addition, explanatory notes identify the changes made to previous financial statements.

Fiscal year	Revenue *	Expenditure *	(Deficit) or surplus	Total debt	Net debt[1]	Non-financial assets	Accumulated deficit
2006-2007	65 196	63 203	1 993 [13]	122 600	(122 191)[11]	26 432	(95 759)
Prior to the reform of government accounting **							
2005-2006	60 018	59 981	37	118 302	(104 683)[10]	12 984	(91 699)
2004-2005	56 885	57 549	(664)	116 596	(99 042) [9]	11 818	(87 224)
2003-2004	54 530	54 888	(358)	114 725	(97 025) [8]	10 735	(86 290)
2002-2003	52 225	52 953	(728)	111 342	(95 601) [7]	9 716	(85 885)
2001-2002	50 011	50 939	(928) [12]	107 175	(92 772) [6]	8 234	(84 538)
2000-2001	50 628	49 251	1 377 [12]	104 848	(88 208) [5]	7 166	(81 042)
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* Certain figures were reclassified for consistency with the presentation adopted in 2006-2007.

** Caution must be applied in comparing the data for 2006-2007 with those of prior years because of the impact of the accounting reform.

($M: millions of dollars)

(1) Net debt represents total liabilities minus financial assets, recorded in the consolidated statement of financial position.

(2) The net debt of ($64 833 M) as at April 1, 1997 was increased by ($21 607 M), including ($13 173 M) for the recording of unrecorded pension plan obligations, ($6 889 M) for the consolidation of Government enterprises, agencies and special funds, ($731 M) for the change to the method used to record borrowings, ($461 M) for the recording of public sector restructuring measures and ($353 M) for the recording of fixed assets.

(3) The net debt was increased by ($339 M), including ($217 M) for fixed assets, ($25 M) for accounts payable and accrued expenses and ($97 M) for other accounts.

(4) The net debt was increased by ($359 M) for fixed assets.

(5) The net debt was increased by ($423 M), including ($473 M) for fixed assets, ($12 M) for sick leave and vacations and $62 M for investments in Government enterprises.

(6) The net debt was increased by ($1 386 M), including ($1 068 M) for fixed assets, $88 M for the Government's share of enterprises' foreign exchange gains or losses, ($215 M) for the correction of the error made by the Canada Customs and Revenue Agency, ($65 M) for the change in the accounting policy for certain recoveries and ($126 M) for the recording of employer contributions in respect of obligations relating to sick leave and vacations, for the change in the status of a Government enterprise and for costs related to the improvement of premises. In addition, accounting changes made by Government enterprises increased the net debt by ($2 250 M), including ($1 338 M) for foreign currency translation and ($912 M) for the introduction of a provision for deviations in the real rate of return.

(7) The net debt was increased by ($1 714 M), including ($1 482 M) for fixed assets, ($122 M) for the Government's share of enterprises' foreign exchange gains or losses and ($110 M) for a change in the application of the accounting policy for debts and an adjustment to the accounts receivable of a consolidated agency. In addition, accounting changes made by Government enterprises increased the net debt by ($387 M), including ($363 M) relating to the capping mechanism used in calculating deferred foreign exchange gains and losses on the basis of the real rate of return assumption.

(8) The net debt was increased by ($1 059 M), including ($1 019 M) for fixed assets and ($40 M) for the Government's share of enterprises' foreign exchange gains or losses. In addition, a correction of the allowance for sick leave and vacations made by a Government enterprise increased the net debt by ($7 M).

APPENDIX

Financial statistics (cont'd)

(9) The net debt was increased by ($1 353 M), including ($1 083 M) for fixed assets, ($126 M) following a reassessment of subsidies for school boards, ($147 M) for a correction to the allowance for doubtful accounts and $3 M for the Government's share of enterprises' foreign exchange gains or losses.

(10) The net debt was increased by ($5 678 M), including ($1 166 M) for fixed assets, ($3 384 M) for the change in the accounting policy for revenue from Federal Government transfers, ($270 M) for a change in the application of the accounting policy for the allowance for losses on guaranteed financial initiatives, ($264 M) following the new actuarial valuations of the pension plans, ($552 M) for the change in the recording of revenue from registration fees, ($41 M) for the harmonization of the accounting policies of consolidated organizations and $24 M for the Government's share of the translation adjustments of Government enterprises. Restatements by Government enterprises raised the net debt by ($25 M).

(11) The net debt has risen by ($19 501 M), i.e. ($1 219 M) for fixed assets, ($10 M) for inventories and prepaid expenses, ($1 002 M) in net investment in the health and social services and the education networks, $841 M for the change to the accounting practice concerning the recognition of financial instruments in the adjustments made by government enterprises, ($468 M) for the change to the accounting practice concerning obligations arising from the rehabilitation of contaminated land recorded as an environmental liability and ($17 643 M) for adjustments resulting from the accounting reform. These adjustments are distributed as follows: ($6 426 M) for accumulated deficits (see note 3 to the financial statements), ($2 184 M) for fixed assets, ($152 M) for inventories and prepaid expenses and ($8 881 M) in net investment in the health and social services and the education networks.

(12) Does not take the budgetary reserve of ($950 M) into account.

(13) $1 300 M was posted to the budgetary reserve and $584 M was allocated to the Generations Fund.

SECTION 2

CONSOLIDATED FINANCIAL STATEMENTS

Statement of responsibility

The Government is responsible for the integrity and objectivity of the consolidated financial statements prepared by the Comptroller of Finance for the Minister of Finance in accordance with the *Financial Administration Act (R.S.Q., c. A-6.001, s. 86)*. The analysis of the financial statements contained in Volume I was also prepared by the Québec government.

To fulfil its accounting and financial reporting responsibilities, the Government maintains systems of financial management and internal control designed to provide reasonable assurance that transactions are duly authorized by Parliament and properly executed and recorded.

The Comptroller of Finance takes care of Government accounting and obtains all the information needed to meet its accounting requirements from Government departments, agencies, enterprises and funds.

The Government submits its consolidated financial statements for audit assurance to the Auditor General who, in his report to the National Assembly, states the nature and scope of his audit as well as his opinion.

The financial statements are part of the Public Accounts tabled annually in the National Assembly by the Minister of Finance.

On behalf of the Gouvernement du Québec,

Jean Houde
Deputy Minister of Finance

Carole Boisvert, CA
Comptroller of Finance

Québec, November 29, 2007

Auditor General's report

To the National Assembly,

I have audited the consolidated statement of the financial position of the Government of Québec as at March 31, 2007 as well as the consolidated statements of operations, accumulated deficit, change in the net debt and cash flows of the fiscal year ended on that date. The Minister of Finance is responsible for the preparation of these financial statements. My responsibility is to express an opinion on these financial statements based on my audit.

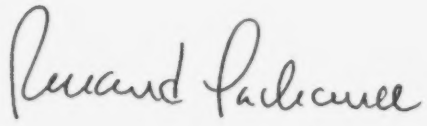
I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the government, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Government of Québec as at March 31, 2007 as well as the results of its activities, the changes in its accumulated deficits, its net debt and its cash flows for the fiscal year then ended in accordance with Canadian generally accepted accounting principles.

In other respects, as required by the *Auditor General Act,* I express the opinion that these consolidated financial statements present fairly, in all material respects, the financial position of the Government of Québec as at March 31, 2007 and the results of its activities, the changes in its accumulated deficits, its net debt and its cash flows for the fiscal year then ended in accordance with the accounting policies of the Government of Québec set out in note 1 of the consolidated financial statements. Moreover, in accordance with that Act, I report that, in my opinion, except for the retroactive application, without adjusting the figures of the previous year, of the changes to the accounting policies explained in note 3, these accounting policies have been applied on a basis consistent with that of the preceding fiscal year.

Auditor General's report (cont'd)

Other information and comments on the financial statements and on this report are presented in my special report to the National Assembly concerning the audit of the consolidated financial statements of the Government of Québec for the fiscal year ended on March 31, 2007.



Renaud Lachance, CA
Auditor General of Québec

Québec, November 29, 2007

Consolidated statement of operations

FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

Appendix		2007 Budget [1]	2007 Actual results	2006 [2] Actual results
6	**REVENUE**			
	Income and property taxes (Note 4)	27 523	28 860	26 800
	Consumption taxes	13 237	12 851	12 609
	Duties and permits (Note 5)	1 265	1 641	1 506
	Miscellaneous	2 934	3 562	3 427
10	Revenue from Government enterprises	4 758	5 728	4 554
12	Revenue of the Generations Fund	74	584	–
	Own-source revenue	**49 791**	**53 226**	**48 896**
	Federal Government transfers	11 999	11 970	11 122
	Total revenue	**61 790**	**65 196**	**60 018**
7	**EXPENDITURE**			
	Health and Social Services	22 883	23 782	22 274
	Education and Culture	13 666	13 436	13 130
	Economy and Environment	7 030	7 154	6 670
	Support for Individuals and Families	5 262	5 280	5 380
	Administration and Justice	4 987	5 657	4 968
	Sub-total	**53 828**	**55 309**	**52 422**
	Debt service	7 888	7 894	7 559
	Total expenditure	**61 716**	**63 203**	**59 981**
	ANNUAL SURPLUS	**74**	**1 993**	**37**

The notes to the financial statements and the appendices are an integral part of the consolidated financial statements.

(1) Based on the revenue and expenditure forecasts presented in the *2006-2007 Budget* of March 23, 2006.
(2) The comparative figures for 2006 have not been adjusted to reflect the accounting changes since the effort required to obtain the financial information needed to do so would be unreasonable. However, some figures have been reclassified for consistency with the presentation adopted in 2007.

Consolidated statement of accumulated deficit

FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

Appendix		2007	2006 [1]
	PREVIOUSLY ESTABLISHED ACCUMULATED DEFICIT, BEGINNING OF YEAR	(91 699)	(91 760)
	Accounting changes (Note 3)	(6 894)	--
10	Government's share of restatements made by Government enterprises	830	--
	Restated balance	**(97 763)**	**(91 760)**
	Government's share in the other elements of the comprehensive income from the Government enterprises	11	24
	Annual surplus	1 993	37
	ACCUMULATED DEFICIT, END OF YEAR	**(95 759)**	**(91 699)**

The notes to the financial statements and the appendices are an integral part of the consolidated financial statements.

(1) The comparative figures for 2006 have not been adjusted to reflect the accounting changes since the effort required to obtain the financial information needed to do so would be unreasonable. However, some figures have been reclassified for consistency with the presentation adopted in 2007.

Consolidated statement of financial position

AS AT MARCH 31, 2007
(in millions of dollars)

Appendix		2007		2006 [1]	
	FINANCIAL ASSETS				
8	Short-term investments		6 124		2 927
9	Accounts receivable		13 435		9 575
	Inventories intended for sale		6		–
10	Investment in Government enterprises		23 497		20 918
11	Long-term investments		3 688		6 173
12	Generations Fund		584		–
	Deferred expenses related to debts		398		405
	TOTAL FINANCIAL ASSETS		**47 732**		**39 998**
	LIABILITIES				
13	Bank overdraft		184		227
14	Accounts payable and accrued expenses		12 911		8 782
15	Deferred revenue		2 919		2 220
16	Other liabilities		1 225		1 456
	Transfers from the Federal Government to be repaid (Note 6)		2 518		2 957
	Pension plans and other future social benefits (Note 7)		33 596		35 422
17	Debt before deferred foreign exchange gain (loss) (Notes 8 and 9)	96 563		86 356	
	Deferred foreign exchange gain (loss)	1 885	98 448	1 606	87 962
17	Debt to finance the health and social services and education networks (Notes 8 and 9)		15 600		2 977
17	Debt to finance the work of municipal bodies (Notes 8 and 9)		2 522		2 678
	TOTAL LIABILITIES		**169 923**		**144 681**
	NET DEBT		**(122 191)**		**(104 683)**
	NON-FINANCIAL ASSETS				
18	Net investment in the health and social services and the education networks		9 883		–
19	Fixed assets		16 387		12 984
	Inventories		97		–
	Prepaid expenses		65		–
	TOTAL NON-FINANCIAL ASSETS		**26 432**		**12 984**
	ACCUMULATED DEFICIT		**(95 759)**		**(91 699)**

The notes to the financial statements and the appendices are an integral part of the consolidated financial statements.

20 Contractual obligations (Note 10)
21 Contingencies (Note 11)
22 Summary of fiduciary transactions conducted by a Department and Government agencies and funds
23 Reserve

(1) The comparative figures for 2006 have not been adjusted to reflect the accounting changes since the effort required to obtain the financial information needed to do so would be unreasonable. However, some figures have been reclassified for consistency with the presentation adopted in 2007.

Consolidated statement of change in the net debt

FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

Appendix		Budget [1]	2007	2006 [2]
	PREVIOUSLY ESTABLISHED NET DEBT, BEGINNING OF YEAR	**(103 787)**	**(104 683)**	**(103 578)**
	Accounting changes (Note 3)	--	(6 894)	--
	Restatement - Fixed assets	--	(2 184)	--
	Restatement - Inventories and prepaid expenses	--	(152)	--
	Restatement - Net investment in the health and social services and the education networks	--	(8 881)	--
10	Government's share of restatements made by Government enterprises	--	830	--
	Restated balance	**(103 787)**	**(121 964)**	**(103 578)**
	Government's share in the other elements of the comprehensive income from the Government enterprises	--	11	24
	Annual surplus	74	1 993	37
	Change due to inventories and prepaid expenses	--	(10)	--
	Change in the net investment in the health and social services and the education networks	--	(1 002)	--
	Change due to fixed assets			
19	Acquisition	(2 339)	(2 443)	(2 224)
19	Depreciation	1 090	1 154	917
	Disposal and reductions in value	--	70	141
	Total change due to fixed assets	(1 249)	(1 219)	(1 166)
	Net decrease (increase) in the debt net	**(1 175)**	**(227)**	**(1 105)**
	NET DEBT, END OF YEAR	**(104 962)**	**(122 191)**	**(104 683)**

The notes to the financial statements and the appendices are an integral part of the consolidated financial statements.

(1) Based on the revenue and expenditure forecasts presented in the *2006-2007 Budget* of March 23, 2006.
(2) The comparative figures for 2006 have not been adjusted to reflect the accounting changes since the effort required to obtain the financial information needed to do so would be unreasonable. However, some figures have been reclassified for consistency with the presentation adopted in 2007.

Consolidated statement of cash flow

FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

	2007		2006 [1]	
OPERATING ACTIVITIES				
Annual surplus		1 993		37
Items not affecting liquid assets				
Doubtful accounts and other allowances	596		743	
Vacation	14		64	
Inventories and prepaid expenses	(10)			
Depreciation and reductions in value of fixed assets	1 154		961	
Amortization of deferred expenses related to debts	58		35	
Amortization of deferred foreign exchange (gain) loss	(134)		(126)	
Amortization of discounts and premiums	208	1 886	144	1 821
		3 879		1 858
Changes in financial assets and liabilities related to operations		(3 709)		(1 030)
		170		828
Activities related to pension plans and other future social benefits				
Costs (Note 7)	1 936		1 682	
Interest (Note 7)	4 157	6 093	4 061	5 743
Benefits	(3 607)		(3 517)	
Employee and independent employer contributions	73	(3 534)	84	(3 433)
		2 559		2 310
Liquid assets provided by operating activities		**2 729**		**3 138**
INVESTMENT ACTIVITIES				
Changes in investment in Government enterprises				
Investments made	(45)		(46)	
Investments realized and other	(122)		29	
Share in the results of enterprises entered as revenue less declared dividends	(1 786)	(1 953)	(1 234)	(1 251)
Changes in net investment in the health and social services and the education networks				
Annual deficit of the networks	219			
Loans and advances to the networks	(1 221)	(1 002)		
Changes in long-term investments				
Investments made	(719)		(489)	
Investments realized	492	(227)	520	31
Fixed assets				
Acquisition	(2 443)		(2 224)	
Disposal	70	(2 373)	97	(2 127)
Liquid assets used for investment activities		**(5 555)**		**(3 347)**

Consolidated statement of cash flow (cont'd)

FISCAL YEAR ENDED MARCH 31, 2007
(in millions of dollars)

	2007		2006 [1]	
FINANCING ACTIVITIES				
Changes in debts				
Borrowings made	17 967		11 569	
Borrowings repaid	(6 824)	11 143	(7 179)	4 390
Activities related to pension plans and other future social benefits				
Changes in the Retirement Plans Sinking Fund and Survivor Pension Plan Fund				
Payments and benefits	(2 984)		(3 000)	
Reinvestment of Funds investment income	(1 464)	(4 448)	(1 230)	(4 230)
Activities related to the Generations Fund				
Change in the Generations Fund		(584)		--
Liquid assets provided by financing activities		**6 111**		**160**
Increase (decrease) in liquid assets during the year		3 285		(49)
LIQUID ASSETS , BEGINNING OF YEAR		3 199		3 248
LIQUID ASSETS, END OF YEAR [2]		**6 484**		**3 199**

The notes to the financial statements and the appendices are an integral part of the consolidated financial statements.

(1) The comparative figures for 2006 have not been adjusted to reflect the accounting changes since the effort required to obtain the financial information needed to do so would be unreasonable. However, some figures have been reclassified for consistency with the presentation adopted in 2007.
(2) Liquid assets include cash in bank (Appendix 13) and short-term investments (Appendix 8).

Consolidated statement of financial requirements and financing

	2007	2006 [1]
Liquid assets provided by operating activities	2 729	3 138
Liquid assets used for investment activities	(5 555)	(3 347)
NET FINANCIAL REQUIREMENTS	**(2 826)**	**(209)**
Liquid assets provided by financing activities	6 111	160
Change in liquid assets during the year	(3 285)	49
FINANCING TRANSACTIONS	**2 826**	**209**

Notes to financial statements

1. Significant accounting policies

The Gouvernement du Québec accounts for its financial transactions in accordance with the accounting policies disclosed below. When necessary, the information included in the consolidated financial statements is based on best estimates and judgments.

Reporting entity

The Government's reporting entity encompasses the financial transactions of the National Assembly, persons designated by the National Assembly, departments as well as the agencies, funds and enterprises under the control of the Government. Control is defined as the power to direct the financial and administrative policies of an entity such that its activities will provide the Government with anticipated benefits or expose it to the risk of loss. The entities of the Government's reporting entity are listed in appendices 1 to 4 of the consolidated financial statements.

Fiduciary transactions carried out by the entities mentioned in Appendix 5 are not included in the Government's reporting entity.

Consolidation method

The accounts of the Consolidated Revenue Fund and the other entities included in the Government's reporting entity, with the exception of Government enterprises and organizations of the health and social services and the education networks, are consolidated line by line in the financial statements. Accordingly, the accounts are harmonized according to the Government's accounting policies and combined line by line. Inter-organization transactions and balances have been eliminated.

Investment in Government enterprises is accounted for using the modified equity method. According to this method, investments are recorded at cost, which is adjusted annually by the Government's share in the results of these enterprises with an offsetting entry to revenue, and in the other items of their comprehensive income with an opposite entry to accumulated deficits. The value of the investment is reduced by declared dividends and adjusted by the elimination of unrealized inter-organization gains and losses relating to transactions on assets that remain within the Government reporting entity. This method requires no harmonization of enterprises' accounting policies with those of the Government. A Government enterprise has all of the following characteristics:

a) it is a separate legal entity that has the authority to enter into contracts in its own name and to go before a court;

1. Significant accounting policies (cont'd)

b) it is vested with the financial and administrative power to carry out commercial activities;

c) its main activity is the sale of goods or the delivery of services to individuals or to organizations not included in the Government's reporting entity;

d) it may, during the normal course of its operations, pursue its activities and settle its debts using revenue from sources not included in the Government's reporting entity.

The accounts of organizations of the health and social services and the education networks are accounted for using the modified equity method. This consolidation is carried out on the basis of the financial statements of the organizations, after adjustments to eliminate material differences between their accounting policies and those of the Government, in particular concerning fixed assets. According to this method, the net equity of these organizations, representing the total of their financial and non-financial assets reduced by their liabilities, is recognized as a component of the net investment in the health and social services and the education networks. The annual surplus or deficit of organizations is recognized in the expenditures of the mission concerned. Where the fiscal year-end of an organization differs from that of the Government, its financial results are adjusted only if the financial transactions carried out during the interval materially affect the Government's financial position or results.

Revenue

Revenue is recorded using the accrual method, i.e. in the fiscal year during which the transactions or the events giving rise to the revenue occurred. Revenue not collected at the end of the fiscal year and refunds not yet issued are recorded on the basis of estimates established according to transactions that will take place in the three months following the end of the fiscal year. Revenue that would be too difficult to measure prior to reception is recorded at the time the funds are received. Sums received or receivable in regard to revenue that will be earned in a subsequent year are deferred and presented as deferred revenue.

More specifically:

- Revenue from income and property tax is recognized when the taxpayer earned the income subject to tax.

- Revenue from consumption taxes is recognized at the time of the sale of the products or the delivery of the services, after deducting tax credits.

- Corporate income tax revenue is recorded at the time the funds are received, because amounts receivable or refundable cannot be accurately estimated. Taxable corporate income varies

1. Significant accounting policies (cont'd)

significantly from year to year and the time allowed for filing corporate returns means that information cannot be obtained in time to make adjustments to revenue on the closing date of the Government's financial statements. An adjustment is made to account for notices of assessment issued before the end of the fiscal year.

- Tax revenue does not include estimates for amounts of unreported taxes. These amounts are recorded when assessments are issued, following audits.

- Revenues from duties and permits are recognized when receivable. Where duty or permit revenue is refundable on demand and is linked to clearly identifiable goods and services that the government must supply to the holder of the duty or the permit, the revenue is deferred and recognized over the reference period of such duty or permit.

- Transfers from the Federal Government are recorded as revenue in the fiscal year during which the events giving rise to them occur, provided the transfers were authorized, the eligibility criteria were met and it is possible to make a reasonable estimate of the amounts involved.

- Interest income ceases to be recorded when there is no reasonable assurance that the principal or interest will be recovered.

Expenditure

Expenditure includes the cost of goods consumed and services obtained during the fiscal year, including annual depreciation of the cost of fixed assets.

Transfers, whether entitlements, transfers relating to shared-cost programs or grants, are recorded in the fiscal year during which the events that give rise to them occur, insofar as the transfers have been authorized and once the beneficiaries have met the eligibility criteria. The determining factor for recognizing an entitlement is the beneficiary's satisfaction of the eligibility criteria stipulated in a law or a regulation, while for a transfer relating to a shared-cost program it is the incurring by the beneficiary of eligible costs, and for a grant it is its authorization by the Government.

Debt service interest charges resulting from transactions in foreign currency are translated into Canadian dollars at the rates in effect at the time of the transactions.

1. Significant accounting policies (cont'd)

Financial assets

Short-term investments are recorded at the lesser of cost and market value. Accounts receivable are initially recorded at cost and then brought down to their net recoverable value by means of an allowance for doubtful accounts. The annual change in this allowance is charged to expenditure.

Investment in Government enterprises is recorded using the modified equity method.

Long-term investments are recorded at cost.

For loans and other investments with concessionary terms, their face value is discounted at the average rate of Government borrowings to determine the value of the grant component, which is recognized as a transfer at the time the investments are made. The discount on loans and other investments is amortized over their lifetime using the real interest method, and recognized as interest income.

Long-term investments are reduced using valuation allowances. An allowance is recorded for loans and advances where the facts or circumstances point to a future loss. For other long-term investments, an allowance is recorded when a durable loss in value is recognized. The annual change in these allowances is charged to expenditure. Any investment write-off reduces the cost of investments as well as the valuation allowance relating to such investment. The residual balance is charged to expenditure. The subsequent recovery is recorded as a reduction in expenditure.

Generations Fund

Demand and participation deposits in a particular fund of the Caisse de dépôt et placement du Québec are recorded at cost.

At the time of disposition of participation deposits, the difference between the amount received and the book value of these units established using the average cost method is charged to operations. Where participation deposits suffer a durable loss in value, their book value is reduced to reflect this decline. The reduction is taken into account in the determination of the results for the fiscal year.

The revenue and expenditure of the Generations Fund are recorded according to the Government's accounting policies.

1. Significant accounting policies (cont'd)

Liabilities

Other liabilities

Allowance for losses on guaranteed financial initiatives

Obligations resulting from borrowings and other financial initiatives guaranteed by the Government are recorded on the basis of probable losses. The allowance is established on the balance of the guaranteed financial initiatives, reduced by the estimated realizable value of the security and surety obtained. The annual change in the allowance is charged to expenditure.

Probable losses are estimated by grouping financial initiatives into various risk classes and applying an average loss rate to each class, based on past experience and the nature of the initiatives. In the case of enterprises with an exceptionally high cumulative balance of financial initiatives guaranteed by the Government or with particular features, the estimate of probable losses relating to these initiatives is made using a case-by-case analysis, regardless of risk class. Probable losses are revised annually.

Environmental liability

The obligations resulting from the remediation of contaminated land under the Government's responsibility, or probably under its responsibility, are recorded as environmental liabilities as soon as contamination occurs or as soon as the Government is informed. An environmental liability includes the estimated cost of contaminated land management and remediation. The remediation cost evaluation is based on the best information available and is revised annually.

Given the difficulties inherent in evaluating this liability, the Government's obligations, which will be recognized until March 31, 2010 for contaminated land existing as at March 31, 2006, will be posted to accumulated deficit.

Pension Plans and other future social benefits

Pension Plans

Government pension plans are defined benefit pension plans. Within the context of preparing the Government's financial statements, obligations relating to vested benefits are evaluated using the actuarial projected benefit method prorated on service, according to the most probable assumptions set by the Government with regard, notably, to inflation, interest and employee remuneration. This method has been adjusted, however, to reflect the way in which benefits are earned by employees.

1. Significant accounting policies (cont'd)

Total cost of plans

The annual cost of vested benefits for all pension plans, including the cost of changes to the plans, and the amortization of adjustments to estimates based on actuarial gains or losses, is charged to expenditure, with an offsetting entry in the retirement plans account, i.e. pension plan liability. Changes to actuarial assumptions are included in the adjustments to estimates based on actuarial gains or losses.

In the case of the Government and Public Employees Retirement Plan (RREGOP), the Pension Plan of Management Personnel (PPMP), the Civil Service Superannuation Plan (CSSP), the Teachers Pension Plan (TPP), the Pension Plan of Certain Teachers (PPCT) and transfers from the TPP and the CSSP to RREGOP and the PPMP, adjustments to estimates based on actuarial gains or losses are amortized using the straight-line method over a period corresponding to the estimated average remaining years of service of participants in these plans as a whole. However, adjustments to estimates based on actuarial gains or losses for the other pension plans are amortized over a period corresponding to the estimated average remaining years of service of participants in each plan.

The total cost of the pension plans also includes interest charges on obligations relating to vested benefits, with an offsetting entry to liabilities in the retirement plans account.

Retirement Plans Sinking Fund (RPSF)

Under the *Financial Administration Act (R.S.Q., c. A-6.001)*, the Minister of Finance may make long-term investments, by way of a deposit with the Caisse de dépôt et placement du Québec, using part of the Consolidated Revenue Fund up to an amount equal to the sums recorded as the pension plans liability, in order to create a sinking fund to provide for the payment of all or part of the benefits awarded under these plans. The sinking fund's investments are valued at an adjusted market value, where the difference between the real return based on market value and the forecast return is amortized over five years.

The annual income of the sinking fund is obtained by applying the rate of return stipulated in the actuarial valuations of the retirement plans to the fund balance. The adjustments recognized annually, arising from actuarial gains and losses attributable to the use of the stipulated rate of return, are amortized using the straight-line method over the estimated average length of the remaining active career of retirement plans participants. The amortization of these adjustments is recorded as investment income of the fund.

The RPSF's investment income is subtracted in calculating interest charges on obligations relating to vested benefits.

1. Significant accounting policies (cont'd)

Other future social benefits

The long-term obligations arising from other social benefits granted to employees are valued using actuarial methods, according to the most likely assumptions determined by the Government. The resulting obligations and corresponding expenditures are recorded on the basis of the acquisition method of these social benefits by employees, i.e. either based on services provided or on the occurrence of the event giving rise to this employment-related benefit.

The cost of these social benefits acquired during the year, the cost of changes to the provisions of these social benefits, the amortization of adjustments relating to estimates arising from actuarial gains and losses and the interest charges on these obligations are charged to expenditure of the fiscal year with an offset to the "Other future social benefits" account.

Any fund set up to provide for the payment of obligations relating to these other future social benefits and the revenue arising from it are accounted for on the basis of the same accounting policies as the RPSF, with the necessary adjustments if needed.

Debts

Borrowings are recorded at the amount received at the time of issue, adjusted by the premium or discount amortization to obtain the amount of principal repayable at maturity. The amortization is calculated using the effective rate for each borrowing.

Issue expenses related to borrowings are deferred and amortized over the term of each borrowing using the straight-line method. The unamortized balance is included in deferred expenses related to debts.

Borrowings in foreign currency are translated into Canadian dollars at the rates in effect on March 31.

Foreign exchange gains or losses resulting from the translation of borrowings are deferred and amortized over the remaining term of each borrowing using the straight-line method.

Derivative instruments

The Government uses derivative instruments to manage foreign exchange and interest rate risks related to debts. These instruments are recorded at cost.

1. Significant accounting policies (cont'd)

Derivative instruments used to manage the foreign exchange risk associated with the repayment of interest and principal on borrowings and with the cash management transactions such risk management entails, including currency swap contracts and foreign exchange forward contracts, are translated into Canadian dollars at the rates in effect on March 31. The components of these instruments, namely, financial assets and liabilities, are offset against one another and shown as "Debts" items.

Interest rate exchanges stemming from interest rate swap contracts used to change exposure to interest ate risk over the long term are reconciled with interest charges for the borrowings with which these swap contracts are associated.

Gains or losses on derivative instruments are deferred and amortized over the term of each contract.

Debt Sinking Fund

Securities held by the sinking fund are recorded at the amount paid at the time of purchase, adjusted by the premium or discount amortization to obtain the amount of principal receivable at maturity. The amortization is calculated on the basis of the effective rate for each security.

The difference between the book value of a security and the amount received at the time of its disposal is charged to results.

Non-financial assets

Land in the public domain and natural resources, such as forests, water and mining resources, which the Government holds by virtue of the fact that they were devolved to the state and not purchased, are not recorded in the Government's consolidated financial statements. Intangible items do not constitute non-financial assets for the Government.

Fixed assets

Fixed assets consist of acquired, built, developed or improved non-financial assets, whose useful life extends beyond the fiscal year and which are intended to be used on an ongoing basis for producing goods or delivering services.

They include land, buildings, facilities such as parks and outdoor recreational areas, complex networks such as dams, canals, roads and bridges, equipment such as vehicles and furniture and the development of data processing systems.

1. Significant accounting policies (cont'd)

Fixed assets are recorded at cost and depreciated – except for land, which is not depreciated - using a logical and systematic method over a period corresponding to their useful life. Cost includes financing charges capitalized during their construction, improvement or development. The cost of fixed assets held under capital leases is equal to the present value of payments due. Fixed assets under construction or being developed are not depreciated until they are put into service.

Works of art and historic property are not recorded as fixed assets. Their cost is charged to expenditure for the fiscal year during which they are acquired.

Fixed assets acquired through donation or for a nominal fee are recorded at their fair value at the time of acquisition with an offsetting entry to deferred revenue, except for land where the offsetting entry is recognized in revenue for the year of acquisition. Contributions for the acquisition of fixed assets, received from organizations outside the reporting entity, are recorded in deferred revenue, with the exception of those intended for the purchase of land, which are recorded in revenue in the year of acquisition. Deferred revenue is amortized in revenue at the same rate as the depreciation of the cost of the corresponding fixed assets.

Net investment in the health and social services and the education networks

The net investment in the health and social services and the education networks includes the net equity of the organizations of these networks included in the reporting entity, advances made to them by the Government and the sinking funds relating to their borrowings to finance fixed assets. Net equity is recorded using the modified equity method described in the "Consolidation method" section, while advances and sinking funds are recorded according to the accounting practice for long-term investments.

Inventories

Inventories consist of supplies that are consumed in the normal course of operations during the coming fiscal year(s). These inventories are valued at the lower of cost and net realizable value. Inventories intended for sale are presented as financial assets.

Prepaid expenses

Prepaid expenses represent outlays made before the end of the fiscal year for services the Government will receive during the coming fiscal year(s). These expenses are charged to expenditure when the Government receives the services acquired.

2. Measurement uncertainty

In preparing its financial statements, the Government must deal with the uncertainty inherent in measuring some of the items recognized or presented in the financial statements. The value of these elements is determined using estimates based on various assumptions.

The estimates are in turn based on the most reliable data available at the time the financial statements are prepared. They are adjusted annually according to new data that become available.

Estimates are used in particular for amounts receivable or refundable relating to income and property tax and consumption taxes established using the accrual accounting method, obligations of the retirement plans and other social benefits valued using actuarial methods, the useful life of fixed assets, environmental liabilities and allowance for doubtful accounts of debtors, valuation allowances on investments, losses on guaranteed financial initiatives and losses resulting from lawsuits and claims against the Government.

3. Accounting changes

Changes to accounting policies

As part of the 2006-2007 accounting reform and the measure announced in the *2007-2008 Budget*, many Government accounting policies have been changed to comply with generally accepted accounting principles in Canada for the public sector in effect in 2006-2007

The main changes concern the following:

Reporting entity and consolidation method

The criterion for inclusion in the Government reporting entity is now based on the control exercised by the Government. Consequently, the Government reporting entity now includes the vast majority of organizations of the Government's health and social services and the education networks. These entities are included on the basis of the modified equity method. Their net assets are recognized as non-financial assets in the new item "Net investment in the health and social services and the education networks".

Revenue

All revenue from income and property taxes, consumption taxes and duties and permits is now recorded using the accrual accounting method. Previously, some of these revenue were recognized on the basis of the amounts received, with adjustments to reflect assessments and accounts issued before the end of the fiscal year.

Expenditure

The factors determining the time when transfer expenditures are recognized, according to the type of transfer, have been specified in the accounting policies. This implies a reassessment of when the expenditure is recognized.

Long-term investments

The grant portion arising from the concessionary terms allowed on investments and loans to third parties is now recorded as a transfer expenditure.

3. Accounting changes (cont'd)

Other liabilities

Obligations arising from the remediation of contaminated land under the Government's responsibility, or likely to come under its responsibility, are now recorded as an environmental liability as soon as the contamination occurs or once the Government is informed. Previously, only the cost of the remediation work completed but unpaid was recorded as a liability.

The allowance for losses on guaranteed financial initiatives is now based on the remaining balance of such initiatives, whereas previously it was calculated on the authorized amount at the time of authorization.

Retirement plans and other future social benefits

The annual income of the Retirement Plans Sinking Fund is now calculated on the adjusted market value of the investments. Previously, it was based on the book value of the fund. In addition, actuarial gains and losses to be amortized relating to the return on the fund are recognized on an annual basis, rather than being determined only every three years at the time of the actuarial valuation.

The allowance for sick leave is now determined on the basis of an actuarial method, whereas previously it was based on the cost of unused sick days accumulated by employees.

Actuarial gains and losses relating to the accounting for the survivor pension plan are now amortized over remaining life expectancy of the beneficiaries rather than being amortized over five years. In addition, the annual income of the assets is now determined on the basis of the rate of return stipulated in the actuarial valuations rather than being based on the return achieved during the fiscal year.

Debts

Exchange gains and losses on short-term foreign exchange contracts are now recognized over the life of these contracts rather than the remaining life of the portfolio of borrowings in the currency concerned.

Inventories and prepaid expenses

Inventories and prepaid expenses are now recognized as Government non-financial assets and charged to expenditure of the fiscal year in which the goods are consumed and the services received. Previously, these costs were charged to expenditure at the time the goods and services were acquired. In addition, inventories intended for sale are now recognized as a financial asset rather than being charged to expenditure upon acquisition.

3. Accounting changes (cont'd)

Other accounting changes

In addition, the accounting reform has given rise to certain other adjustments.

The main adjustments concern the line-by-line consolidation of certain organizations, which previously were recorded using the modified equity method as investments in Government enterprises. This change stems chiefly from the inclusion in the Government reporting entity of organizations of the health and social services and the education networks.

The effect of all these accounting changes on transactions prior to March 31, 2006 has been recognized retroactively, as at April 1, 2006, as adjustments in the statement of accumulated deficits for the fiscal year ended March 31, 2007.

However, the comparative figures for the fiscal year ended March 31, 2006 have not been restated to reflect these changes since the effort required to obtain the financial information needed to do so would be unreasonable.

3. Accounting changes (cont'd)

	As at March 31, 2007										
					Liabilities		Net debt				
	Revenue	Expenditure	Surplus	Financial assets	Debt	Other liabilities	Accumulated deficits	Net investment in the networks	Fixed assets	Other non-financial assets	Accumulated deficits as at April 1, 2006
	(in millions of dollars)										
Accounting reform											
Inclusion of the networks	–	219	(219)	(483)	–	(483)	3 439	(3 439)	–	–	3 220
Revenue according to accrual accounting	315	29	286	1 840	–	3 458	1 618	–	–	–	1 904
Transfer expenditures	(10)	(76)	66	–	–	418	418	–	–	–	484
Loans and investments with concessionary terms	31	27	4	(331)	–	–	331	–	–	–	335
Allowance for losses on guaranteed financial initiatives	–	(68)	68	69	–	(57)	(126)	–	–	–	(58)
Retirement Plans Sinking Fund	–	42	(42)	–	–	167	167	–	–	–	125
Future social benefits	(30)	11	(41)	9	–	30	21	–	–	–	(20)
Debts - short-term foreign exchange contracts	–	33	(33)	38	779	–	741	–	–	–	708
Inventories and prepaid expenses	–	(10)	10	6	–	–	(162)	–	–	156	(152)
Other	10	21	(11)	(2 854) (1)	(2 946) (1)	50	(66)	–	24	–	(77)
Status of certain organizations											
Corporation d'hébergement du Québec	(1)	(6)	5	(737)	3 483	222	(27)	2 491	1 976	2	(22)
Financement-Québec	(8)	(9)	1	1 434	12 086	178	(1)	10 831	–	–	–
Other organizations	302	299	3	(101)	154	35	(24)	–	310	4	(21)
Subtotal: items of the accounting reform	**609**	**512**	**97**	**(1 110)**	**13 556**	**4 018**	**6 329**	**9 883**	**2 310**	**162**	**6 426**
Measure of the 2007-2008 Budget											
Environmental liability	–	(5)	5	–	–	463	463	–	–	–	468
Total impact	**609**	**507**	**102**	**(1 110)**	**13 556**	**4 481**	**6 792**	**9 883**	**2 310**	**162**	**6 894**

(1) Including debt offsets amounting to $2 946 million as at April 1, 2006 of the Financing Fund for the funding of advances to the Corporation d'hébergement du Québec ($1 916 million) and to Financement-Québec ($1 030 million).

4. Income and property taxes

According to applicable legislation, revenue from income and property taxes is recorded after deducting the following amounts:

	2007	2006
	(in millions of dollars)	
Personal income tax		
Refundable tax credits		
Child Support Program	2 112	2 030
Sales tax	495	486
Day care expenses	161	177
Home-support services for seniors	127	97
New graduates working in remote ressource regions	8	75
Work premium	355	77
Other	114	82
Property tax refunds	276	252
	3 648	**3 276**
Corporate taxes		
Refundable tax credits		
Scientific research and experimental development	729	609
Cinematographic productions	90	94
Reporting of tips	46	48
Salaries paid to employees working in the Cité du commerce électronique	56	88
Job creation in a designated region	91	61
Credit for corporations established in the Cité du multimédia	41	41
Other	338	268
	1 391	**1 209**
	5 039	**4 485**

5. Duties and permits

According to applicable legislation, duties and permits are recorded after deducting the following amounts:

	2007	2006
	(in millions of dollars)	
Gross revenue	**1 841**	**1 756**
Deductions		
Silvicultural work and other forest management activities	187	188
Highway carrier monitoring	–	56
Other	13	6
	200	**250**
Net revenue	**1 641**	**1 506**

6. Transfers from the Federal Government to be repaid

	2007	2006
	(in millions of dollars)	
Federal Government transfers		
Equalization and Canada Health and Social Transfer [1]	2 271	2 640
Other programs	247	317
	2 518	**2 957**

(1) Including a balance of $2 140 million on an original amount of $2 377 million to be repaid over 10 years as of 2006-2007, in regard to the measures adopted by the Federal Government to mitigate the decrease in transfers in 2003-2004 and 2004-2005. Also including a balance of $131 million on an original amount of $656 million to be repaid in 2007-2008, in regard to a change made by the Federal Government in February 2002 to the method for measuring the provinces' fiscal capacity with respect to property tax.

7. Pension plans and other future social benefits

Liability regarding retirement plans and other future social benefits

	Actuarial obligations relating to vested benefits	Adjustments	Liability as at March 31, 2007	Liability as at March 31, 2006
		(in millions of dollars)		
Pension plans	64 627	(4 906)	59 721	57 193
Retirement Plans Sinking Fund	(26 569)	(308)	(26 877)	(22 563)
	38 058	**(5 214)**	**32 844**	**34 630**
Other future social benefits	1 149	27	1 176	1 149
Funds dedicated to other future social benefits	(400)	(24)	(424)	(357)
	749	**3**	**752**	**792**
	38 807	**(5 211)**	**33 596**	**35 422**

Pension plans

The Gouvernement du Québec contributes to several pension plans for its employees. Employees of the public and parapublic sectors, the Members of the National Assembly and the judges of the Court of Québec participate in these plans.

	Estimated number of participants as at December 31, 2006	Number of beneficiaries as at December 31, 2006
Government and Public Employees Retirement Plan (RREGOP)	485 000	146 953
Pension Plan of Management Personnel (PPMP)	26 150	17 595
Teachers Pension Plan and Pension Plan of Certain Teachers (TPP and PPCT)	825 *	49 037 *
Civil Service Superannuation Plan (CSSP)	950 *	23 974 *
Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 200	4 269
Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 100	1 268
Pension Plan of the Judges of the Court of Québec (PPJCQ)	270	314
Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	245	100
Pension Plan of the Members of the National Assembly (PPMNA)	123	297
	521 863	**243 807**

* These plans have not admitted any new participants since July 1, 1973.

7. Pension plans and other future social benefits (cont'd)

These plans are "defined benefit" pension plans, which means that they guarantee participants a set income upon retirement, calculated on the basis of participants' average income for the best paid years, generally five, and their number of years of service. The portion of benefits accrued prior to July 1, 1982 is usually indexed to the cost of living, while those accrued after that date are partially indexed.

There are two types of pension plans:
— cost-sharing pension plans;
— cost-balance pension plans.

Cost-sharing pension plans

In the case of RREGOP and the PPMP, the Government covers costs at a rate of 50% for years of service since July 1, 1982 and 58.33% (7/12) for years of service prior to July 1, 1982. The contributions of participants and independent employers are remitted to the Caisse de dépôt et placement du Québec.

In the case of the PPPOCS, the Government covers 46% of costs, while employees cover 54%. Employee contributions are paid into the Consolidated Revenue Fund.

In the case of the SPMSQ, the Government covers 2/3 of the cost of the plan for years of service since January 1, 2007. Prior to this date, the plan was a cost-balance plan. As of January 1, 2007, the contributions of participants and employers for these years of service are paid into two separate funds with the Caisse de dépôt et placement du Québec. The Government is not obliged to contribute on a monthly basis. Based on the actuarial valuations required by the Minister of Finance, the latter determines the contributions which might, from year to year but no later than every three years, be capitalized to reflect the Government's commitments to this plan for years of service after December 31, 2006.

Cost-balance pension plans

Cost-balance pension plans are plans for which employers cover the difference between the cost of plans and the contributions paid by participants. This is the case for all Government plans apart from the shared-cost plans listed above.

The contributions of participants and independent employers to these cost-balance plans are paid into the Consolidated Revenue Fund. The Government covers the difference between the cost of each plan and the contributions paid by participants and independent employers.

7. Pension plans and other future social benefits (cont'd)

Value of actuarial obligations relating to vested benefits for the pension plans as a whole

The value of actuarial obligations relating to vested benefits for the pension plans as a whole for service rendered as at a given date is determined by actuaries of the Commission administrative des régimes de retraite et d'assurances (CARRA). For this purpose, they use the actuarial projected benefit method prorated on service and take into account, among other things, the most probable long-term economic assumptions.

Long-term economic assumptions:

- Yield, net of inflation	4.75%
- Inflation rate	2.75%
- Salary escalation rate, net of inflation	0.50%
- Discount rate for actuarial obligations relating to vested benefits	7.50%

Pension plans liability

The Government's liability with regard to the pension plans is recorded in conformity with the recommendations of the Canadian Institute of Chartered Accountants for public sector pension plans.

The liability recorded with respect to the pension plans is established on the basis of the value of actuarial obligations relating to vested benefits for the pension plans as a whole, taking into account certain adjustments stemming from actuarial gains or losses noted during the actuarial valuations prepared every three years and the extrapolations made between two valuations. These gains or losses are amortized using the accounting policy established for this purpose. The accumulated restatements at the end of the fiscal year correspond mainly to the unamortized balance of actuarial gains and losses and to adjustments made because of the three-month gap between the date on which actuarial obligations related to vested benefits are evaluated, i.e. December 31, and the date on which the pension plans liability is evaluated.

As shown by the following table concerning the main pension plans, the Government's liability with regard to the pension plans as a whole is estimated at $59 721 million as at March 31, 2007, including $37 148 million for RREGOP and the PPMP.

7. Pension plans and other future social benefits (cont'd)

	Actuarial obligations relating to vested benefits	Adjust-ments	Pension plans liability as at March 31, 2007	Pension plans liability as at March 31, 2006
		(in millions of dollars)		
RREGOP				
- regular service	30 131	(1 891)	28 240	26 063
- transferred service	2 484	(212)	2 272	2 289
PPMP				
- regular service	6 284	(754)	5 530	5 013
- transferred service	1 236	(130)	1 106	1 109
TPP and PPCT	14 736	(1 330)	13 406	13 724
CSSP	4 942	(258)	4 684	4 797
Other	4 814	(331)	4 483	4 198
Pension Plans liability	**64 627**	**(4 906)**	**59 721**	**57 193**
Sinking fund [1] [2]	(26 569) [3]	(308)	(26 877)	(22 563)
	38 058	**(5 214)**	**32 844**	**34 630**

(1) During fiscal 2006-2007 the Minister of Finance made investments of $3 000 million in the Retirement Plans Sinking Fund ($3 000 million in 2005-2006); 1 440 million in investment income ($1 230 million in 2005-2006) was reinvested in the sinking fund for this period.

(2) In 2006-2007, the forecast return on sinking fund assets is 6.79% (6.98% in 2005-2006); its actual return is 11.93% (14.70% in 2005-2006).

(3) The fair value of investments with the Caisse de dépôt et placement du Québec as at March 31, 2007 is $28 859 million ($23 042 million as at March 31, 2006).

Actuarial valuations and subsequent estimates

The value of actuarial obligations relating to vested benefits is determined on the basis of actuarial valuations and extrapolations made from them for years between two valuations.

The most recent extrapolations, which were filed and issued in 2007, were determined on the basis of actuarial valuations:

- as at December 31, 2005 for the CSSP, the TPP, RREGOP and the PPMP, other than service transferred from the TPP and the CSSP to RREGOP and the PPMP, and for the PPMP (RRAS);
- as at December 31, 2004 for the PPMNA, the PPPOCS, the PPJCQ, the PPFEQ, and the PPMP (RRAS);
- as at December 31, 2003 for the PPCT, the SPMSQ and service transferred from the TPP and the CSSP to RREGOP and the PPMP.

7. Pension plans and other future social benefits (cont'd)

Total cost of pension plans

	2007	2006
	(in millions of dollars)	
Pension costs		
Cost of vested benefits excluding interest charges	1 542	1 394
Employee contributions	(68)	(78)
Independant employer contributions	(5)	(6)
	1 469	**1 310**
Cost of changes	24 (1)	--
Amortization of adjustments to estimates based on actuarial gains or losses	382	372
	1 875	**1 682**
Interest on pension plans	2 643 (2)	2 831 (2)
Total	**4 518**	**4 513**

(1) A Superior Court ruling handed down on June 4, 2007 involves amendments to the means used to index Pension Plan for Judges of the Court of Québec pensions. Further, the *Act to amend the Act respecting the National Assembly and the Act respecting the conditions of employment and the pension plan of the Members of the National Assembly (Q.S., 2006, c. 10)* also introduced amendments to the means used to index Pension Plan for Members of the National Assembly pensions. The impacts of these amendments are $20 million and $4 million respectively, for a total of $24 million as at March 31, 2007.

(2) After deducting Retirement Plans Sinking Fund investment income of $1 440 million in 2006-2007 ($1 230 million in 2005-2006).

Funding of pension plans

Actuarial valuations for funding purposes for regular service under "cost-sharing" pension plans (RREGOP, PPMP AND PPPOCS)

By law, CARRA actuaries are required to prepare, every three years, an actuarial valuation for funding purposes for each of the pension plans in order to determine the rates of contribution for these plans. To that end, the actuaries take legislative provisions and collective agreements into account using the valuation method agreed upon by the parties concerned and economic assumptions that are more conservative than those used to prepare valuations for accounting purposes.

According to these valuations, the Government commitment for funding purposes is calculated as the fund that the Government would have amassed had it been required to pay contributions since 1973 on the same bases as those used to determine the rate of contribution of participants. In the case of RREGOP and the PPMP, this fund was estimated at $52 113 million at fair value and $54 780 million at

7. Pension plans and other future social benefits (cont'd)

cost as at December 31, 2006 ($46 164 million at fair value and $50 165 million at cost as at December 31, 2005). In the case of the PPPOCS, for which employee contributions were paid into the Consolidated Revenue Fund, the value of the fund that would have been amassed by employees and the Government was $921 million at cost as at December 31, 2006 ($860 million as at December 31, 2005).

The difference between these amounts and the liability recorded for these three plans represents a non-payable amount that does not have to be recorded as a liability of the Government. A number of the Government's labour-management associations submitted an application to the Québec Superior Court requesting that it recognize that this difference constitutes a Government commitment. In July 2004, the ruling handed down by the Québec Superior Court on this application concluded that:

- in every fiscal year since 1973, the Government has disclosed, in an appropriate manner and in accordance with the standards of the Canadian Institute of Chartered Accountants, its financial commitments regarding the sharing of the cost of the Government and Public Employees Retirement Plan (RREGOP), the Pension Plan of Management Personnel (PPMP) and the Pension Plan of Peace Officers in Correctional Services (PPPOCS), as provided in the legislation concerned;

- sharing the cost of financing the pension plans concerned, namely, RREGOP, the PPMP and the PPPOCS, does not commit the Government to using the same actuarial bases as those employed to constitute the pension funds of participating employees, especially since the evidence revealed no risk of a detrimental impact on the pension wealth of each covered participating employee at any time.

The Government's labour-management associations appealed this ruling in August 2004. In January 2006, the Québec Court of Appeal suspended the appeal to allow the labour organizations of employees who participate in these plans to bring a new application before the Québec Superior Court for a declaratory judgment on this subject. An application to this effect was filed by these organizations in April 2006. Consequently, the suspension of the appeal will remain in effect until a final ruling on the new application is handed down by the Superior Court.

Other future social benefits

In addition to the retirement plans, the Government sponsors two other programs of future social benefits for its employees, namely the sick leave accumulation program and the survivor pension plan. These programs give rise to long-term obligations for the Government, which assumes the entire cost of the two programs.

7. Pension plans and other future social benefits (cont'd)

The sick leave accumulation program allows employees to accumulate the unused sick leave days they are entitled to annually and monetize them at 50% in case of termination of employment, retirement or death, up to an amount representing the equivalent of 66 days. In addition, employees can utilize these unused days as fully paid leave days for preretirement. Currently, payments under the program are not funded.

The survivor pension plan stipulates that a pension is paid to the spouse and dependent children following the death of an eligible person. The plan chiefly covers management and similar personnel in the public and parapublic sectors, accounting for 90% of the insured population. The Government pays amounts into a fund with the Caisse de dépôt et placement du Québec, dedicated specifically to the payment of benefits earned by plan beneficiaries.

Liability regarding other future social benefits

The obligations of the sick leave accumulation program accumulate as employees provide the Government with services. The value of these obligations is established using an actuarial method that allocates the cost of the program over the active career of employees. This method reflects how employees earn benefits.

For the survivor pension plan, an obligation is recognized when the death of an eligible person occurs. The value of the obligations is established using an actuarial method that determines the present value of pensions then acquired by beneficiaries.

Adjustments arising from actuarial gains and losses, recognized at the time of the actuarial valuations of the obligations of the two programs, are amortized over the estimated average remaining active career of participants in the case of the sick leave accumulation program and, in the case of the survivor pension plan, over the remaining average life expectancy of the beneficiaries. The aggregate adjustments at the end of the fiscal year mainly correspond to the unamortized balance of actuarial gains and losses.

Actuarial valuations and subsequent estimates

The value of the actuarial obligations regarding vested rights and pensions is established using actuarial valuations or extrapolations of such valuations for the years between two valuations. An actuarial valuation of the sick leave accumulation program was done as at March 31, 2006. The survivor pension plan has been established on the basis of an actuarial valuation as at December 31, 2005. For both these programs, extrapolations as at March 31, 2007, were produced.

7. Pension plans and other future social benefits (cont'd)

The value of actuarial obligations is estimated using the most likely long-term economic assumptions, as follows.

	Sick leave accumulation program	Survivor Pension Plan
- Yield, net of inflation	4.75%	4.75%
- Inflation rate	2.75 %	2.75%
- Salary escalation rate, net of inflation	0.50%	
- Discount rate for actuarial obligations relating to vested benefits	7.50 %	7.50%

Liability regarding other future social benefits

	Actuarial obligations relating to vested benefits	Adjustments	Liabilitiy regarding other future social benefits as at March 31, 2007	Liability regarding other future social benefits as at March 31, 2006
	(in millions of dollars)			
Sick leave accumulation program	788		788	791
Survivor Pension Plan	361	27	388	358
	1 149	27	1 176	1 149
Survivor Pension Plan Fund [1] [2]	(400) [3]	(24)	(424)	(357)
	749	**3**	**752**	**792**

(1) During fiscal year 2006-2007, an amount of $13 million ($17 million in 2005-2006) was invested in the Survivor Pension Plan Fund; investment income of $24 million ($33 million in 2005-2006) was reinvested in this fund for this period. During the same period, pension benefits of $29 million ($28 million in 2005-2006) were paid from the amounts invested in this fund.

(2) In 2006-2007, the forecast return on assets of the Survivor Pension Plan Fund is 6.75% (6.85% in 2005-2006); its actual return is 13.61% (16.56% in 2005-2006).

(3) The fair value of investments with the Caisse de dépôt et placement du Québec as at March 31, 2007 is $456 million ($417 million as at March 31, 2006).

7. Pension plans and other future social benefits (cont'd)

Total cost relating to other future social benefits

	2007	2006
	(in millions of dollars)	
Cost of other future social benefits		
Cost of vested rights and pensions	63	17
Amortization of adjustments based on actuarial gains or losses	(2)	--
	61	**17**
Interest on account of other future social benefits	50 [1]	(10) [1]
Total	**111**	**7**

(1) After deducting $24 million in investment income of the Survivor Pension Plan Fund in 2006-2007 ($33 million in 2005-2006).

8. Risk management and derivative instruments

To meet the financial requirements arising from its operations for repaying maturing loans and for maintaining the desired level of liquid assets, the Government has provided itself with an annual financing and debt-management program targeting Canadian and international financial markets.

Participation in these markets involves various types of risk. Therefore, the Government devises risk-management strategies by using the different derivative instruments at its disposal.

Foreign exchange risk

Foreign exchange risk is the risk that the cash flows needed to repay the interest and principal on loans in foreign currency will vary according to market fluctuations. To manage this risk, the Government uses derivative instruments such as currency swap contracts and foreign exchange forward contracts. The purpose of such contracts is to exchange cash flows from one currency to another. These contracts mature at various dates until 2036.

After taking into account derivative instruments used to manage foreign exchange risk, the structure of the debt as at March 31, 2007 was 92% in Canadian dollars, 1% in U.S. dollars, 1% in yen, 3% in Swiss francs an 3% in euros (as at March 31, 2006: 89% in Canadian dollars, 2% in U.S. dollars, 3% in yen and 6% in Swiss francs).

For the 2006-2007 fiscal year, $134 million was posted to results as an amortization of the deferred foreign exchange gain included in debt service ($126 million for fiscal 2005-2006).

Interest rate risk

Interest rate risk is the risk that debt service will vary unfavourably according to interest rate fluctuations. To reduce its exposure to interest rate risk, the Government uses interest rate swap contracts or short-term derivative products. Interest rate swap contracts make it possible to exchange payments of interest at fixed rates for payments of interest at variable rates or vice versa on the basis of a reference par value.

After taking into account derivative instruments used to manage interest rate risk, the structure of the debt as at March 31, 2007 was 68% at fixed rates and 32% at variable rates (as at March 31, 2006: 69% at fixed rates and 31% at variable rates).

The fixed-rate debt is the debt that will not mature, and whose rates will not change, over the coming year.

8. Risk management and derivative instruments (cont'd)

Credit risk

Credit risk is the risk that a counterparty will default on his contractual obligations, an event that could entail financial losses for the Government. To protect itself from such a risk within the scope of derivative instrument transactions, the Government has adopted a credit risk management policy that limits potential losses by a counterparty.

A credit limit is set for each counterparty based mainly on his credit rating. When this limit is exceeded, a process is implemented to ensure that the amounts owed by the counterparty concerned fall within the limits set.

The Government deals with major financial institutions whose credit rating is equal to or higher than its own by using as a reference the ratings granted by major rating agencies. As at March 31, 2007, the entire derivative instrument portfolio was associated with counterparties whose credit rating was equal to or higher than that of the province of Québec with at least one of these agencies.

Liquidity risk

Liquidity risk is the risk that the Government will not be able to meet its financial commitments over the short term. To offset this risk, the Government has obtained lines of credit totalling C$1 175 million from various Canadian banking institutions.

In addition, the Government has concluded credit agreements for U.S.$3 500 million with a Canadian and international banking syndicate.

As at March 31, 2007, none of these credit lines or agreements had been drawn upon.

9. Debts

	2007			
	Direct		Health and social services and education networks [1] [2]	
Currency	In millions of monetary units	Total in Canadian equivalent	In millions of monetary units	Total in Canadian equivalent
		(in millions of dollars)		(in millions of dollars)
In Canadian dollars	67 602	67 602	14 031	14 031
In U.S. dollars	13 046	15 041	500	576
In yen	450 054	4 413		
In euros	7 518	11 591	650	1 002
In Swiss francs	1 496	1 423		
Other currencies [5]		1 571		
Less				
Derivative instruments - net		888		(136)
Sinking fund [4]		4 190		145
Debts before deferred foreign exchange gain (loss)		**96 563**		**15 600**
Deferred foreign exchange gain (loss)		1 885		
		98 448		**15 600**

(1) Health and social services and education networks

	2007			
	Financing Fund	Financement-Québec	Corporation d'hébergement du Québec	
Currency	Total in Canadian equivalent	Total in Canadian equivalent	Total in Canadian equivalent	Total in Canadian equivalent
			(in millions of dollars)	
In Canadian dollars	3 054	9 342	1 635	14 031
In U.S. dollars		576		576
In yen				
In euros		1 002		1 002
In Swiss francs				
Other currencies [5]				–
Less				
Derivative instruments - net		(136)		(136)
Sinking fund	77		68	145
Debts before deferred foreign exchange gain (loss)	**2 977**	**11 056**	**1 567**	**15 600**
Deferred foreign exchange gain (loss)				–
	2 977	**11 056**	**1 567**	**15 600**

(2) Including an amount of $31 million as at March 31, 2007 ($31 million as at March 31, 2006) for a non-profit fiduciary organization.

2007						2006
Work of municipal bodies [3]		Total				
In millions of monetary units	Total in Canadian equivalent	In millions of monetary units	Total in Canadian equivalent	Derivative instruments - net	Total after impact of derivative instruments	Total after impact of derivative instruments
	(in millions of dollars)		(in millions of dollars)	(in millions of dollars)	(in millions of dollars)	(in millions of dollars)
2 581	2 581	84 214	84 214	25 462	**109 676** [4]	**85 700** [4]
		13 546	15 617	(14 542)	**1 075**	**1 853**
		450 054	4 413	(2 331)	**2 082**	**2 849**
		8 168	12 593	(9 449)	**3 144**	**(22)**
		1 496	1 423	1 681	**3 104**	**5 622**
			1 571	(1 573)	**(2)**	**(2)**
			752	(752)	**--**	**--**
	59		4 394		**4 394**	**3 989**
	2 522		**114 685**	--	**114 685**	**92 011**
			1 885		**1 885**	**1 606**
	2 522		**116 570**	--	**116 570**	**93 617**

(3) Under the water treatment program, the Government is committed, in accordance with an agreement with the municipalities and the Société québécoise d'assainissement des eaux (SQAE), to contributing to the financing of work costs by repaying, based on date of maturity, the principal and interest on borrowings contracted by the SQAE.

(4) The Government held $3 472 million worth of its securities as at March 31, 2007 ($3 815 million in 2006), including $2 206 million ($2 303 million as at March 31, 2006) held by the Sinking Fund.

(5) In 2006 and 2007, other currencies included the pound sterling, the Mexican peso, the Australian dollar, the New Zealand dollar and the Hong Kong dollar. A detailed table by type of currency and debt is presented in Appendix 17.

9. Debts (cont'd)

Weighted average interest rate [1]

Currency	Direct		Health and social services and education networks		Work of municipal bodies	
	2007	2006	2007	2006	2007	2006
In Canadian dollars	5.62 %	5.42 %	5.01 %	5.93 %	5.40 %	5.44 %
In U.S. dollars	6.16	6.25	5.10	3.45		5.78
In yen	3.52	3.52				
In euros	4.53	4.47	4.13			7.72
In Swiss francs	2.72	2.71				
Weighted average rate	**5.47 %**	**5.36 %**	**4.95 %**	**5.93 %**	**5.40 %**	**5.59 %**

(1) The weighted average interest rate corresponds to the effective rate of borrowings.

Debt schedules after impact of derivative instruments

Direct

Maturing on March 31 [1]	In Canadian dollars [4]	In U.S. dollars [4]	In yen	In euros	In Swiss francs	Other currencies	Total
							(in millions of dollars)
2008	11 569	(653)	(500)	(587)	(54)		9 775
2009	5 015	22		(1)	2		5 038
2010	6 335	21	(1)	1			6 356
2011	5 472	19	39				5 530
2012	6 527	319	433	(6)		(1)	7 272
	34 918	**(272)**	**(29)**	**(593)**	**(52)**	**(1)**	**33 971**
2013-2017	24 834	93	1 673	3 583	2 686		32 869
2018-2022	2 474	448	242	154	470	(1)	3 787
2023-2027	7 921	(354)	196				7 763
2028-2032	3 945	282					4 227
2033 and thereafter	13 763	183					13 946
	87 855	**380**	**2 082**	**3 144**	**3 104**	**(2)**	**96 563**

9. Debts (cont'd)

Health and social services and education networks

Maturing on March 31 [2]	In Canadian dollars [4]	In U.S. dollars	In yen	In euros	In Swiss francs	Other currencies	Total
							(in millions of dollars)
2008	2 832						2 832
2009	2 059						2 059
2010	2 012						2 012
2011	487						487
2012	1 971						1 971
	9 361						**9 361**
2013-2017	4 718						4 718
2018-2022	52						52
2023-2027	402						402
2028-2032	39						39
2033 and thereafter	1 028						1 028
	15 600						**15 600**

Work of municipal bodies

Maturing on March 31 [3]	In Canadian dollars [4]	In U.S. dollars	In yen	In euros	In Swiss francs	Other currencies	Total
							(in millions of dollars)
2008	224						224
2009	113						113
2010	319						319
2011	575						575
2012	115						115
	1 346						**1 346**
2013-2017	1 176						1 176
	2 522						**2 522**

(1) This schedule takes into account $2 950 million for Treasury bills and $1 951 million for short-term borrowings in 2008 and was drawn up considering projected repayments of $938 million in 2008, $410 million in 2009, $335 million in 2010, $542 million in 2011, $450 million in 2012 and $2 205 million in 2013-2017 for savings products redeemable on demand.

(2) This schedule reflects, in 2008, $1 415 million for short-term borrowings and $323 million maturing for Treasury bills.

(3) This schedule includes an amount of $23 million, for Treasury bills, maturing in 2008.

(4) These schedules take into account the sinking fund of $3 699 million for debts in Canadian dollars and $695 million for debts in U.S. dollars.

9. Debts (cont'd)

Repayment of debt by the sinking fund [1]

Maturing on March 31	In Canadian dollars	In U.S. dollars	Total
			(in millions of dollars)
2008	22		22
2009	53		53
2010	753		753
2011	418		418
2012	346		346
	1 592		**1 592**
2013-2017	91		91
2018-2022	26		26
2023-2027	1 362	695	2 057
2028-2032	628		628
	3 699	**695**	**4 394**

(1) Payments to the sinking fund stem from commitments made by the Government in prospectuses provided when the borrowings were issued.

10. Contractual obligations

As part of its operations, the Government concluded various long-term agreements, the most important of which gave rise to the following contractual obligations:

	2007	2006
	(in millions of dollars)	
Transfers		
Funding for the acquisition of fixed assets	7 697	22 878
Agreements	8 237	6 455
	15 934	**29 333**
Minimum undiscounted payments under operating leases	1 442	1 363
Acquisition of fixed assets	974	882
Supply of goods and services	572	306
Other contracts	599	411
	19 521	**32 295**

Schedule

Maturing on March 31	Transfers - Funding for the acquisition of fixed assets	Transfers - Agreements	Operating leases	Acquisition of fixed assets	Supply of goods and services	Other contracts	Total
							(in millions of dollars)
2008	805	1 134	235	629	372	282	3 457
2009	742	703	208	210	103	198	2 164
2010	737	589	169	64	50	44	1 653
2011	548	500	140	22	32	24	1 266
2012	801	495	117	2	8	16	1 439
	3 633	**3 421**	**869**	**927**	**565**	**564**	**9 979**
2013-2017	1 876	1 444	389	15	5	23	3 752
2018-2022	479	794	128				1 401
2023-2027	147	777	24				948
2028-2032	61	394	12				467
2033 and thereafter	13	1 407	18			12	1 450
	6 209	**8 237**	**1 440**	**942**	**570**	**599**	**17 997**
No fixed maturity date	1 488		2	32	2		1 524
	7 697	**8 237**	**1 442**	**974**	**572**	**599**	**19 521**

Contractual obligations with regard to transfers are broken down in Appendix 20.

11. Contingencies

A) Under its various financial assistance programs, the Government guarantees borrowings and other financial initiatives by third parties for an amount of $10 487 million as at March 31, 2007 ($10 774 million as at March 31, 2006). These net guaranteed financial initiatives are summarized in Appendix 21.

B) A number of claims have been instituted against the Government, which is also involved in legal proceedings before the courts. These different disputes result from breaches of contract, damages suffered by individuals or property, and related elements. In some cases, the amounts claimed are mentioned; in others, no mention is made of them. The cases for which claim amounts have been established represent $1 039 million. Since the outcome of these disputes is uncertain, the Government cannot determine its potential losses. The Government records a provision to this effect under "Accounts payable and accrued expenses"only once it appears likely that these cases will give rise to disbursements and the amount can be reasonably estimated.

C) Some of Québec's First Nations have instituted legal proceedings involving $15 925 million in damages and interest against the Government for land claims, the recognition of certain ancestral rights and other related elements. These files, which are at different stages (some proceedings are currently suspended), are following their course and should be resolved through negotiations or rulings to intervene. Since their conclusion is uncertain, the Government cannot determine its potential losses.

D) Since 2006-2007, the Government has recorded an environmental liability for the cost of remediation contaminated land under its responsibility, or likely to come under its responsibility, to the extent that the amount can be estimated. A survey of contaminated lands was conducted for this purpose. As at April 1, 2006, $468 million was posted to "Other liabilities" for the approximately 450 properties inventoried.

In some cases, the probability that the Government will have to cover the remediation cost could not be established. In others, the value of the costs it will have to assume could not be estimated. The Government has given itself until March 31, 2010 to implement its new accounting policy, given the difficulties inherent in evaluating such a liability. The Government's obligations, which will be recorded until March 31, 2010 for contaminated properties existing as at March 31, 2006, will be posted to accumulated deficit.

11. Contingencies (cont'd)

E) The Government may be called upon to guarantee the execution of any obligation to which the Association des hôpitaux du Québec is bound in relation to the management of a deductible pertaining to a civil and professional liability insurance contract it negotiated and entered into for its members. It may also advance to this association any amount considered necessary in the course of such management. This guarantee represents an amount of $90 million as at March 31, 2007.

APPENDIX 1

Government departments and agencies whose financial transactions were conducted within the Consolidated Revenue Fund [1]

Affaires municipales et Régions
- Commission municipale du Québec
- Régie du logement

Agriculture, Pêcheries et Alimentation
- Commission de protection du territoire agricole du Québec
- Régie des marchés agricoles et alimentaires du Québec

Assemblée nationale

Conseil du trésor et Administration gouvernementale
- Commission de la fonction publique

Conseil exécutif
- Commission d'accès à l'information

Culture et Communications
- Commission des biens culturels du Québec
- Conseil supérieur de la langue française
- Office québécois de la langue française

Développement durable, Environnement et Parcs
- Bureau d'audiences publiques sur l'environnement

Développement économique, Innovation et Exportation

Éducation, Loisir et Sport
- Commission consultative de l'enseignement privé
- Conseil supérieur de l'éducation

Emploi et Solidarité sociale

Famille, Aînés et Condition féminine
- Conseil du statut de la femme
- Curateur public [2]

Finances

Immigration et Communautés culturelles
- Conseil des relations interculturelles

APPENDIX 1

Government departments and agencies whose financial transactions were conducted within the Consolidated Revenue Fund [1] (cont'd)

Justice
- Comité de la rémunération des juges de la Cour du Québec et des cours municipales
- Commission des droits de la personne et des droits de la jeunesse
- Conseil de la justice administrative
- Conseil de la magistrature
- Directeur des poursuites criminelles et pénales
- Office de la protection du consommateur
- Tribunal des droits de la personne

Personnes désignées par l'Assemblée nationale
- Commissaire au lobbyisme
- Directeur général des élections – Commission de la représentation
- Protecteur du citoyen
- Vérificateur général

Relations internationales

Ressources naturelles et Faune

Revenu
- Registraire des entreprises

Santé et Services sociaux
- Commissaire à la santé et au bien-être
- Office des personnes handicapées du Québec

Sécurité publique
- Bureau du coroner
- Commission québécoise des libérations conditionnelles

Services gouvernementaux

Tourisme

Transports
- Commission des transports du Québec

Travail
- Commission de l'équité salariale
- Conseil consultatif du travail et de la main-d'œuvre
- Conseil des services essentiels

(1) These entities have a fiscal year that ends on March 31.
(2) This entity also conducts fiduciary transactions that are not included in the Government's reporting entity.

APPENDIX 2

Government agencies, special funds, sinking funds and other fund

Agencies [1]

Agence de l'efficacité énergétique
Agence des partenariats public-privé du Québec
Agence métropolitaine de transport (December 31)
Autorité des marchés financiers
Bibliothèque et Archives nationales du Québec
Bureau d'accréditation des pêcheurs et des aides-pêcheurs du Québec [2] (December 31)
Bureau de décision et de révision en valeurs mobilières
Centre de recherche industrielle du Québec
Centre de services partagés du Québec
Commissaire de l'industrie de la construction
Commission de la capitale nationale du Québec
Commission de reconnaissance des associations d'artistes et des associations de producteurs
Commission des lésions professionnelles
Commission des normes du travail
Commission des relations du travail
Commission des services juridiques
Conseil des arts et des lettres du Québec
Corporation d'hébergement du Québec
Corporation d'urgences-santé
École nationale de police du Québec [2] (June 30)
École nationale des pompiers du Québec [2] (June 30)
Financement-Québec
Fondation de la faune du Québec
Fonds d'aide aux recours collectifs
Fonds d'assurance-prêts agricoles et forestiers
Fonds de la recherche en santé du Québec
Fonds québécois de la recherche sur la nature et les technologies
Fonds québécois de la recherche sur la société et la culture
Héma-Québec
Institut de la statistique du Québec
Institut de tourisme et d'hôtellerie du Québec [2] (June 30)
Institut national de santé publique du Québec
Investissement Québec
La Financière agricole du Québec
Musée d'art contemporain de Montréal
Musée de la civilisation
Musée national des beaux-arts du Québec
Office de la sécurité du revenu des chasseurs et piégeurs cris (June 30)
Office des professions du Québec
Office Québec-Amériques pour la jeunesse
Régie de l'assurance maladie du Québec

APPENDIX 2

Government agencies, special funds, sinking funds and other fund (cont'd)

Agencies [1] *(cont'd)*

Régie de l'énergie
Régie des installations olympiques (October 31)
Régie du bâtiment du Québec
Régie du cinéma
Services Québec
Société de développement de la Baie James (December 31)
Société de développement des entreprises culturelles
Société de financement des infrastructures locales du Québec
Société de la Place des Arts de Montréal [2] (August 31)
Société de l'assurance automobile du Québec (December 31)
Société de télédiffusion du Québec (Télé-Québec)
Société des établissements de plein air du Québec
Société des parcs de sciences naturelles du Québec
Société des Traversiers du Québec
Société d'habitation du Québec (December 31)
Société du Centre des congrès de Québec
Société du Grand Théâtre de Québec (August 31)
Société du Palais des congrès de Montréal
Société du parc industriel et portuaire de Bécancour
Société immobilière du Québec
Société nationale de l'amiante
Société québécoise d'assainissement des eaux
Société québécoise de récupération et de recyclage
Société québécoise d'information juridique
Tribunal administratif du Québec

Special funds [1]

Assistance Fund for Independent Community Action
Assistance Fund for Victims of Crime
Civil Status Fund
Collection Fund
Financial Assistance Fund for Certain Disaster Areas
Financing Fund
Fonds de fourniture de biens ou de services du ministère de l'Emploi et de la Solidarité sociale
Fonds de fourniture de biens ou de services du ministère du Revenu
Fonds du Centre financier de Montréal
Fonds du patrimoine culturel québécois
Fonds québécois d'initiatives sociales

APPENDIX 2

Government agencies, special funds, sinking funds and other fund (cont'd)

Special funds [1] *(cont'd)*

Forestry Fund
Fund for the Contributions of Motorists to Public Transit
Fund for the Sale of Goods and Services of the Ministère des Transports
Geographic Information Fund
Government Air Service Fund
Green Fund
Health Services Fund
Horse-Racing Industry Fund
Ice Storm Fund
Information Technology Fund of the Conseil du trésor
Information Technology Fund of the Ministère de l'Emploi et de la Solidarité sociale
Information Technology Fund of the Ministère du Revenu
Labour Market Development Fund
Land Information Fund
Police Services Fund
Prescription Drug Insurance Fund
Regional Development Fund
Register Fund of the Ministère de la Justice
Road Network Preservation and Improvement Fund
Rolling Stock Management Fund
Special Olympic Fund
Sports and Physical Activity Development Fund
Support Payments Fund [3]
Tourism Partnership Fund

Sinking funds

Sinking Fund relating to Borrowings by General and Vocational Colleges in Québec
Sinking Fund relating to Borrowings by Québec Health and Social Services Agencies
Sinking Fund relating to Borrowings by Québec School Boards
Sinking Fund relating to Borrowings by Québec University Establishments
Sinking Fund of Société québécoise d'assainissement des eaux
Sinking Fund relating to Government Borrowings (Debt Sinking Fund)
Sinking Fund for Government Borrowings contracted to finance the health and social services and education networks and Government enterprises
Retirement Plans Sinking Fund
Sinking Fund of Government Air Service Fund

APPENDIX 2

Government agencies, special funds, sinking funds and other fund (cont'd)

Other fund

Generations Fund

(1) In general, these organizations and special funds have a fiscal year that ends on March 31. If not, their year-end date is indicated in parentheses.
(2) The year-end date for these entities does not correspond to March 31, 2007. No data were available for them for the period between the end of their fiscal year and March 31, 2007.
(3) This fund also conducts fiduciary transactions that are not included in the Government's reporting entity.

APPENDIX 3

Organizations in the health and social services and education networks

Health and social services network

Agencies

Agence de la santé et des services sociaux de Chaudière-Appalaches
Agence de la santé et des services sociaux de la Capitale-Nationale
Agence de la santé et des services sociaux de la Côte-Nord
Agence de la santé et des services sociaux de la Gaspésie–Îles-de-la-Madeleine
Agence de la santé et des services sociaux de la Mauricie et du Centre-du-Québec
Agence de la santé et des services sociaux de la Montérégie
Agence de la santé et des services sociaux de l'Abitibi-Témiscamingue
Agence de la santé et des services sociaux de Lanaudière
Agence de la santé et des services sociaux de Laval
Agence de la santé et des services sociaux de l'Estrie
Agence de la santé et des services sociaux de l'Outaouais
Agence de la santé et des services sociaux de Montréal
Agence de la santé et des services sociaux des Laurentides
Agence de la santé et des services sociaux du Bas-Saint-Laurent
Agence de la santé et des services sociaux du Saguenay–Lac-St-Jean
Centre régional de santé et de services sociaux de la Baie-James [1]
Conseil Cri de la santé et des services sociaux de la Baie James [1]
Régie régionale de la santé et des services sociaux du Nunavik

Public institutions

Centre André-Boudreau
Centre d'accueil Dixville inc.
Centre de protection et de réadaptation de la Côte-Nord
Centre de réadaptation Constance-Lethbridge
Centre de réadaptation de la Gaspésie (Le)
Centre de réadaptation de l'Ouest de Montréal
Centre de réadaptation en alcoolisme et toxicomanie de Chaudière-Appalaches
Centre de réadaptation en déficience intellectuelle (CRDI) Chaudière-Appalaches
Centre de réadaptation en déficience intellectuelle de Québec
Centre de réadaptation en déficience intellectuelle du Bas-Saint-Laurent
Centre de réadaptation en déficience intellectuelle du Saguenay–Lac-Saint-Jean
Centre de réadaptation en déficience intellectuelle Gabrielle-Major
Centre de réadaptation en déficience intellectuelle Montérégie-Est
Centre de réadaptation en déficience physique Chaudière-Appalaches
Centre de réadaptation en déficience physique Le Bouclier

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Health and social services network (cont'd)

Public institutions (cont'd)

Centre de réadaptation Estrie inc.
Centre de réadaptation Interval
Centre de réadaptation La Maison
Centre de réadaptation La Myriade
Centre de réadaptation Lisette-Dupras
Centre de réadaptation Ubald-Villeneuve
Centre de santé et de services sociaux Cavendish
Centre de santé et de services sociaux Champlain
Centre de santé et de services sociaux Cléophas-Claveau
Centre de santé et de services sociaux d'Ahuntsic et Montréal-Nord
Centre de santé et de services sociaux d'Antoine-Labelle
Centre de santé et de services sociaux d'Argenteuil
Centre de santé et de services sociaux d'Arthabaska-et-de-L'Érable
Centre de santé et de services sociaux de Beauce
Centre de santé et de services sociaux de Bécancour–Nicolet-Yamaska
Centre de santé et de services sociaux de Bordeaux-Cartierville-Saint-Laurent
Centre de santé et de services sociaux de Charlevoix
Centre de santé et de services sociaux de Chicoutimi
Centre de santé et de services sociaux de Dorval-Lachine-Lasalle
Centre de santé et de services sociaux de Gatineau
Centre de santé et de services sociaux de Jonquière
Centre de santé et de services sociaux de Kamouraska
Centre de santé et de services sociaux de la Baie-des-Chaleurs
Centre de santé et de services sociaux de la Basse-Côte-Nord
Centre de santé et de services sociaux de la Côte-de-Gaspé
Centre de santé et de services sociaux de la Haute-Côte-Nord
Centre de santé et de services sociaux de la Haute-Gaspésie
Centre de santé et de services sociaux de la Haute-Yamaska
Centre de santé et de services sociaux de la Matapédia
Centre de santé et de services sociaux de la Minganie
Centre de santé et de services sociaux de la Mitis
Centre de santé et de services sociaux de la Montagne
Centre de santé et de services sociaux de la MRC-de-Coaticook
Centre de santé et de services sociaux de la Pointe-de-l'Île
Centre de santé et de services sociaux de la région de Thetford
Centre de santé et de services sociaux de la Vallée-de-la-Batiscan
Centre de santé et de services sociaux de la Vallée-de-la-Gatineau
Centre de santé et de services sociaux de Lac-Saint-Jean-Est
Centre de santé et de services sociaux de la Vallée-de-l'Or

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Health and social services network (cont'd)

Public institutions (cont'd)

Centre de santé et de services sociaux de la Vieille-Capitale
Centre de santé et de services sociaux de Laval
Centre de santé et de services sociaux de l'Énergie
Centre de santé et de services sociaux de l'Hématite
Centre de santé et de services sociaux de l'Ouest-de-l'Île
Centre de santé et de services sociaux de Manicouagan
Centre de santé et de services sociaux de Maskinongé
Centre de santé et de services sociaux de Matane
Centre de santé et de services sociaux de Memphrémagog
Centre de santé et de services sociaux de Montmagny-L'Islet
Centre de santé et de services sociaux de Papineau
Centre de santé et de services sociaux de Port-Cartier
Centre de santé et de services sociaux de Portneuf
Centre de santé et de services sociaux de Québec-Nord
Centre de santé et de services sociaux de Rimouski-Neigette
Centre de santé et de services sociaux de Rivière-du-Loup
Centre de santé et de services sociaux de Rouyn-Noranda
Centre de santé et de services sociaux de Saint-Jérôme
Centre de santé et de services sociaux de Saint-Léonard et Saint-Michel
Centre de santé et de services sociaux de Sept-Îles
Centre de santé et de services sociaux de Sorel-Tracy
Centre de santé et de services sociaux de Témiscaming-et-de-Kipawa
Centre de santé et de services sociaux de Témiscouata
Centre de santé et de services sociaux de Thérèse de Blainville
Centre de santé et de services sociaux de Trois-Rivières
Centre de santé et de services sociaux de Vaudreuil-Soulanges
Centre de santé et de services sociaux des Aurores-Boréales
Centre de santé et de services sociaux des Basques
Centre de santé et de services sociaux des Collines
Centre de santé et de services sociaux des Etchemins
Centre de santé et de services sociaux des Îles
Centre de santé et de services sociaux des Pays-d'en-Haut
Centre de santé et de services sociaux des Sommets
Centre de santé et de services sociaux des Sources
Centre de santé et de services sociaux Domaine-du-Roy
Centre de santé et de services sociaux Drummond
Centre de santé et de services sociaux du Coeur-de-l'Île
Centre de santé et de services sociaux du Grand Littoral

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Health and social services network (cont'd)

Public institutions (cont'd)

Centre de santé et de services sociaux du Granit
Centre de santé et de services sociaux du Haut-Saint-Maurice
Centre de santé et de services sociaux du Haut-St-François
Centre de santé et de services sociaux du Haut-St-Laurent
Centre de santé et de services sociaux du Lac-des-Deux-Montagnes
Centre de santé et de services sociaux du Lac-Témiscamingue
Centre de santé et de services sociaux du Nord de Lanaudière
Centre de santé et de services sociaux du Pontiac
Centre de santé et de services sociaux du Rocher-Percé
Centre de santé et de services sociaux du Sud de Lanaudière
Centre de santé et de services sociaux du Sud-Ouest-Verdun
Centre de santé et de services sociaux du Suroit
Centre de santé et de services sociaux du Val-St-François
Centre de santé et de services sociaux Haut-Richelieu-Rouville
Centre de santé et de services sociaux - Institut universitaire de gériatrie de Sherbrooke
Centre de santé et de services sociaux Jardins-Roussillon
Centre de santé et de services sociaux Jeanne-Mance
Centre de santé et de services sociaux La Pommeraie
Centre de santé et de services sociaux Les Eskers de l'Abitibi
Centre de santé et de services sociaux Lucille-Teasdale
Centre de santé et de services sociaux Maria-Chapdelaine
Centre de santé et de services sociaux Pierre Boucher
Centre de santé et de services sociaux Richelieu-Yamaska
Centre de santé Inuulitsivik
Centre de santé Tulattavik de l'Ungava
Centre de services en déficience intellectuelle Mauricie/Centre-du-Québec
Centre de soins prolongés Grace Dart
Centre d'hébergement et de soins de longue durée de St-Andrew-de-Father-Dowd-et-de-St-Margaret
Centre Dollard-Cormier (Le)
Centre du Florès
Centre hospitalier affilié universitaire de Québec
Centre hospitalier de l'Université de Montréal
Centre hospitalier de soins de longue durée Juif de Montréal
Centre hospitalier de St. Mary
Centre hospitalier régional de Trois-Rivières
Centre hospitalier Robert-Giffard
Centre hospitalier universitaire de Québec
Centre hospitalier universitaire de Sherbrooke
Centre hospitalier universitaire Ste-Justine

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Health and social services network (cont'd)

Public institutions (cont'd)

Centre Jean-Patrice-Chiasson/Maison Saint-Georges (Le)
Centre Jellinek
Centre jeunesse de la Mauricie et de Centre-du-Québec (Le)
Centre jeunesse de la Montérégie
Centre jeunesse de l'Abitibi-Témiscamingue
Centre jeunesse de Laval
Centre jeunesse de l'Estrie
Centre jeunesse de Montréal (Le)
Centre jeunesse de Québec
Centre jeunesse des Laurentides
Centre jeunesse du Bas St-Laurent
Centre jeunesse du Saguenay-Lac-Saint-Jean (Le)
Centre jeunesse Gaspésie/Les Îles
Centre local de services communautaire Naskapi
Centre Miriam
Centre montérégien de réadaptation
Centre Normand
Centre Notre-Dame de l'Enfant (Sherbrooke) inc.
Centre régional de réadaptation La Ressource
Centre régional de santé et de services sociaux de la Baie-James [1]
Centre universitaire de santé McGill
Centres de la jeunesse et de la famille Batshaw (Les)
Centres jeunesse Chaudière-Appalaches (Les)
Centres jeunesse de Lanaudière (Les)
Centres jeunesses de l'Outaouais (Les)
Clair Foyer inc.
Conseil Cri de la santé et des services sociaux de la Baie James [1]
Corporation du Centre de réadaptation Lucie-Bruneau (La)
Corporation du Centre hospitalier gériatrique Maimonides (La)
Corporation du Centre hospitalier Pierre-Janet (La)
CRDI Normand-Laramée (Centre de réadaptation en déficience intellectuelle)
Domrémy Mauricie/Centre-du-Québec
Hôpital Catherine Booth de l'Armée du Salut
Hôpital Charles Lemoyne
Hôpital chinois de Montréal (L')
Hôpital de réadaptation Lindsay (L')
Hôpital Douglas
Hôpital du Sacré-Coeur de Montréal
Hôpital général juif Sir Mortimer B. Davis (L')
Hôpital Jeffery Hale (L')

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Health and social services network (cont'd)

Public institutions (cont'd)

Hôpital juif de réadaptation
Hôpital Laval
Hôpital Louis-H. Lafontaine
Hôpital Maisonneuve-Rosemont
Hôpital Mont-Sinaï
Hôpital Rivière-des-Prairies
Hôpital Santa Cabrini
Hôtel-Dieu de Lévis
Institut Canadien-Polonais du Bien-Être inc.
Institut de cardiologie de Montréal
Institut de réadaptation de Montréal (L')
Institut de réadaptation en déficience physique de Québec
Institut Nazareth et Louis-Braille
Institut Philippe-Pinel de Montréal
Institut Raymond-Dewar
Institut universitaire de gériatrie de Montréal
La Résidence de Lachute
Pavillon du Parc
Saint Brigid's Home inc.
Services de réadaptation du Sud-Ouest et du Renfort
Services de réadaptation L'Intégrale
Virage, réadaptation en alcoolisme et toxicomanie (Le)

(1) These entities act as agencies and public institutions.

Education network

School boards

Commission scolaire au Coeur-des-Vallées
Commission scolaire Central Québec
Commission scolaire Crie
Commission scolaire de Charlevoix
Commission scolaire de Kamouraska–Rivière-du-Loup
Commission scolaire de l'Énergie
Commission scolaire de l'Estuaire
Commission scolaire de l'Or-et-des-Bois

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Education network (cont'd)

School boards (cont'd)

Commission scolaire de la Baie-James
Commission scolaire de la Beauce-Etchemin
Commission scolaire de la Capitale
Commission scolaire de la Côte-du-Sud
Commission scolaire De La Jonquière
Commission scolaire de la Moyenne-Côte-Nord
Commission scolaire de la Pointe-de-l'Île
Commission scolaire de la Région-de-Sherbrooke
Commission scolaire de la Riveraine
Commission scolaire de la Rivière-du-Nord
Commission scolaire de la Seigneurie-des-Mille-Îles
Commission scolaire de la Vallée-des-Tisserands
Commission scolaire de Laval
Commission scolaire de Montréal
Commission scolaire de Portneuf
Commission scolaire de Rouyn-Noranda
Commission scolaire de Saint-Hyacinthe
Commission scolaire de Sorel-Tracy
Commission scolaire des Affluents
Commission scolaire des Appalaches
Commission scolaire des Bois-Francs
Commission scolaire des Chênes
Commission scolaire des Chic-Chocs
Commission scolaire des Découvreurs
Commission scolaire des Draveurs
Commission scolaire des Grandes-Seigneuries
Commission scolaire des Hautes-Rivières
Commission scolaire des Hauts-Bois-de-l'Outaouais
Commission scolaire des Hauts-Cantons
Commission scolaire des Îles
Commission scolaire des Laurentides
Commission scolaire des Monts-et-Marées
Commission scolaire des Navigateurs
Commission scolaire des Patriotes
Commission scolaire des Phares
Commission scolaire des Portages-de-l'Outaouais
Commission scolaire des Premières-Seigneuries
Commission scolaire des Rives-du-Saguenay
Commission scolaire des Samares

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Education network (cont'd)

School boards (cont'd)

Commission scolaire des Sommets
Commission scolaire des Trois-Lacs
Commission scolaire du Chemin-du-Roy
Commission scolaire du Fer
Commission scolaire du Fleuve-et-des-Lacs
Commission scolaire du Lac-Abitibi
Commission scolaire du Lac-Saint-Jean
Commission scolaire du Lac-Témiscamingue
Commission scolaire du Littoral
Commission scolaire du Pays-des-Bleuets
Commission scolaire du Val-des-Cerfs
Commission scolaire Eastern Shores
Commission scolaire Eastern Townships
Commission scolaire English-Montréal
Commission scolaire Harricana
Commission scolaire Kativik
Commission scolaire Lester-B.-Pearson
Commission scolaire Marguerite-Bourgeoys
Commission scolaire Marie-Victorin
Commission scolaire New Frontiers
Commission scolaire Pierre-Neveu
Commission scolaire René-Lévesque
Commission scolaire Riverside
Commission scolaire Sir-Wilfrid-Laurier
Commission scolaire Western Québec

Comité de gestion de la taxe scolaire de l'Île de Montréal

General and vocational colleges

Cégep André-Laurendeau
Cégep Beauce-Appalaches
Cégep d'Ahuntsic
Cégep d'Alma
Cégep de Baie-Comeau
Cégep de Bois-de-Boulogne
Cégep de Chicoutimi
Cégep de Drummondville
Cégep de Granby–Haute-Yamaska

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Education network (cont'd)

General and vocational colleges (cont'd)

Cégep de Jonquière
Cégep de la Gaspésie et des Îles
Cégep de La Pocatière
Cégep de l'Abitibi-Témiscamingue
Cégep de Lévis-Lauzon
Cégep de Limoilou
Cégep de l'Outaouais
Cégep de Maisonneuve
Cégep de Matane
Cégep de Rimouski
Cégep de Rivière-du-Loup
Cégep de Rosemont
Cégep de Saint-Félicien
Cégep de Sainte-Foy
Cégep de Saint-Hyacinthe
Cégep de Saint-Jérôme
Cégep de Saint-Laurent
Cégep de Sept-Îles
Cégep de Sherbrooke
Cégep de Sorel-Tracy
Cégep de Thetford
Cégep de Trois-Rivières
Cégep de Valleyfield
Cégep de Victoriaville
Cégep du Vieux Montréal
Cégep Édouard Montpetit
Cégep François-Xavier Garneau
Cégep Gérald-Godin
Cégep John Abbott
Cégep Lionel Groulx
Cégep Marie-Victorin
Cégep Montmorency
Cégep régional de Lanaudière
Cégep Saint-Jean-sur-Richelieu
Champlain Regional College
Collège Dawson
Collège Héritage
Collège Shawinigan
Vanier College

APPENDIX 3

Organizations in the health and social services and education networks (cont'd)

Education network (cont'd)

Université du Québec and its constituents

École de technologie supérieure
École nationale d'administration publique
Institut national de la recherche scientifique
Université du Québec
Université du Québec à Chicoutimi
Université du Québec à Montréal
Université du Québec à Rimouski
Université du Québec à Trois-Rivières
Université du Québec en Abitibi-Témiscamingue
Université du Québec en Outaouais

APPENDIX 4

Government enterprises [1]

Capital Financière agricole inc.
Fonds d'indemnisation du courtage immobilier (December 31)
Hydro-Québec [2] (December 31)
Immobilière SHQ (December 31)
IQ FIER inc.
IQ Immigrants Investisseurs inc.
Loto-Québec
Société des alcools du Québec
Société générale de financement du Québec (December 31)
Société Innovatech du Grand Montréal
Société Innovatech du Sud du Québec
Société Innovatech Québec et Chaudière-Appalaches
Société Innovatech Régions ressources

(1) In general, Government enterprises have a fiscal year that ends on March 31. If not, their year-end date is indicated in parentheses.
(2) This enterprise also conducts fiduciary transactions that are not included in the Government's reporting entity.

APPENDIX 5

Government department, agencies and funds which conduct fiduciary transactions that are not included in the Government's reporting entity (1)

Caisse de dépôt et placement du Québec (December 31)
Cautionnements individuels des agents de voyages
Comité Entraide – public and parapublic sectors (December 31)
Commission administrative des régimes de retraite et d'assurances (December 31)
Commission de la construction du Québec (December 31)
Conseil de gestion de l'assurance parentale (December 31)
Curateur public (fiduciary section) (December 31)
Fonds central de soutien à la réinsertion sociale (December 31)
Fonds d'assurance parentale (December 31)
Fonds d'assurance-récolte
Fonds d'assurance-stabilisation des revenus agricoles
Fonds d'indemnisation des clients des agents de voyages
Fonds d'indemnisation des services financiers
Fonds du compte de stabilisation du revenu agricole
Fonds national de formation de la main-d'oeuvre
Guarantee Insurance Fund administered by the Régie des marchés agricoles et alimentaires du Québec
Hydro-Québec – pension plan (December 31)
Ministère du Revenu– Property under administration (December 31)
Régie des rentes du Québec
Support Payments Fund (fiduciary section)
Trust funds
Trust funds – Goods and Services Tax

(1) In general, these organizations and funds have a fiscal year that ends on March 31. If not, their year-end date is indicated in parentheses.

APPENDIX 6

Breakdown of revenue

FISCAL YEAR ENDED MARCH 31, 2007

	2007		2006
	Budget	Actual results	Actual results
		(in millions of dollars)	
Income and property taxes			
Personal income tax		18 480	16 450
Contributions to the Health Services Fund		5 601	5 563
Corporate taxes		4 779	4 787
	27 523	**28 860**	**26 800**
Consumption taxes			
Sales		9 931	9 656
Fuel		1 728	1 708
Tobacco		758	818
Alcoholic beverages		422	414
Pari-mutuel		12	13
	13 237	**12 851**	**12 609**
Duties and permits			
Motor vehicles		1 006	828
Natural resources		208	354
Other		427	324
	1 265	**1 641**	**1 506**
Miscellaneous			
Sales of goods and services		2 341	2 330
Interest		705	583
Fines, forfeitures and recoveries		516	514
	2 934	**3 562**	**3 427**
Revenue from Government enterprises			
Société des alcools du Québec		710	657
Loto-Québec		1 391	1 537
Hydro-Québec		4 043	2 323
Other		84	37
Revenue allocated to the Generations Fund		(500)	
	4 758	**5 728**	**4 554**
Revenue from the Generations Fund	**74**	**584**	
Total own-source revenue	**49 791**	**53 226**	**48 896**
Federal Government transfers			
Equalization		5 539	4 798
Transfers for health care		3 649	3 185
Transfers for post-secondary education and other programs		1 070	1 034
Other programs		1 712	2 105
Total Federal Government transfers	**11 999**	**11 970**	**11 122**
Total revenue	**61 790**	**65 196**	**60 018**

APPENDIX 7

Breakdown of expenditure
FISCAL YEAR ENDED MARCH 31, 2007

	2007		2006
	Budget	Actual results	Actual results
		(in millions of dollars)	
BY SUPERCATEGORY AND CATEGORY			
Transfer			
Remuneration		23 780	22 632
Operating		5 510	5 387
Capital [1]		1 679	1 507
Interest [1]		1 125	1 223
Support		13 429	12 971
		45 523	**43 720**
Remuneration		5 033	4 513
Operating [2]		3 938	3 446
Doubtful accounts and other allowances		596	743
Sub-total	**53 828**	**55 090**	**52 422**
Debt service			
Interest on debt [3]		5 981	4 964
Less			
Interest income from loans and advances to the health and social service and education networks		647	208
Short-term investment income		133	28
		5 201	4 728
Interest on pension plans and other future social benefits [4]		2 693	2 831
Sub-total	**7 888**	**7 894**	**7 559**
Annual deficit of the health and social services and the education networks		219	
Total expenditure	**61 716**	**63 203**	**59 981**

(1) After deducting $53 million, in 2006-2007, of revenue of sinking funds relating to borrowings of health and social services and education networks ($55 million in 2005-2006).

(2) Including $1 154 million in 2006-2007 ($961 million in 2005-2006) for the depreciation and reductions in value of fixed assets.

(3) After deducting $219 million in investment income from the Sinking Fund related to Borrowings ($268 million in 2005-2006).

(4) After deducting $1 440 million in investment income of the Retirement Plans Sinking Fund in 2006-2007 ($1 230 million in 2005-2006) and $24 million of the Survivor Pension Plan Fund.

APPENDIX 8

Short-term investments [1] [2]

AS AT MARCH 31, 2007

	2007	2006
	(in millions of dollars)	
Treasury bills	1 021	514
Notes	1 795	1 893
Deposit certificates	825	165
Banker's acceptances	2 100	235
Bonds	38	62
Commercial papers	272	25
Other	73	33
	6 124	**2 927**

(1) Rates of return on short-term investments vary mainly from 2.0% to 11.75%.

(2) Including $1 179 million as at March 31, 2007 ($1 340 million as at March 31, 2006) in securities issued by the government.

APPENDIX 9

Accounts receivable
AS AT MARCH 31, 2007

	2007	2006
	(in millions of dollars)	
Agents and assignees		
Income and property taxes	1 276	1 105
Consumption taxes	2 272	1 851
Duties and permits	2	112
	3 550	**3 068**
Accounts receivable		
Income and property taxes	5 072	2 729
Consumption taxes	1 123	934
Duties and permits	194	153
Miscellaneous revenue	1 925	1 597
Recoveries of expenditures and other	377	376
	8 691	5 789
Allowance for doubtful accounts	(1 097)	(999)
	7 594	**4 790**
Revenue from Government enterprises - dividends	225	117
Federal Government transfers	1 699	1 440
Specified purpose accounts	168	152
Accrued interest on investments	199	8
	13 435	**9 575**

APPENDIX 10

Investment in Government enterprises
AS AT MARCH 31, 2007

Investment in Government enterprises

			2007	2006
	Loans and advances	Equity value	Investment in Government enterprises	Investment in Government enterprises
			(in millions of dollars)	
Capital Financière agricole inc. [1]		23	23	22
Corporation d'hébergement du Québec [6]		--	--	164
Financement-Québec [6]		--	--	77
Fonds d'indemnisation du courtage immobilier [2]		3	3	6
Hydro-Québec [2] [5]	7	21 002	21 009	18 418
Immobilière SHQ [3]		61	61	49
IQ FIER inc. [1] [5]	87	(4)	83	44
IQ Immigrants Investisseurs inc. [1]		45	45	33
Loto-Québec [1]		135	135	135
Société de développement de la Baie-James [6]		--	--	7
Société de l'assurance automobile du Québec [6]		--	--	(75)
Société des alcools du Québec [1]		37	37	36
Société des établissements de plein air du Québec [6]		--	--	41
Société générale de financement du Québec [2]		1 996	1 996	1 848
Société Innovatech du Grand Montréal [4]		5	5	5
Société Innovatech du Sud du Québec [1]		14	14	10
Société Innovatech Québec et Chaudière - Appalaches [1]		57	57	70
Société Innovatech Régions ressources [4]		29	29	28
Total	**94**	**23 403**	**23 497**	**20 918**

(1) Equity value was determined on the basis of audited financial statements as at March 31, 2007.
(2) Equity value was determined on the basis of audited financial statements as at December 31, 2006, and adjusted according to unaudited interim results as at March 31, 2007.
(3) Equity value was determined on the basis of audited financial statements as at December 31, 2006.
(4) Equity value was determined on the basis of unaudited financial statements as at March 31, 2007.
(5) Loans and advances to Hydro-Québec have no fixed maturity date, while those to IQ FIER inc. do not bear interest and mature between June 2020 and September 2021.
(6) In 2006-2007, the enterprise status of these entities was changed to that of government organization, because of either the integration within the reporting entity of organizations of the health and social services and the education networks, or the change in their operating activities and their financial position.

APPENDIX 10

Investment in Government enterprises (cont'd)
AS AT MARCH 31, 2007

Summary of the financial statements of Government enterprises

	2007		
	Statement of operations		
	Revenue	Expenditure	Surplus (deficit)
	(in millions of dollars)		
Capital Financière agricole inc. [1]	1	2	(1)
Corporation d'hébergement du Québec [6]			
Financement-Québec [6]			
Fonds d'indemnisation du courtage immobilier [2]	1	4	(3)
Hydro-Québec [2]	12 105	8 364	3 741
Immobilière SHQ [2]	201	189	12
IQ FIER inc. [1]	1	4	(3)
IQ Immigrants Investisseurs inc. [1]	104	92	12
Loto-Québec [1]	3 700	2 232	1 468
Société de développement de la Baie-James [6]			
Société de l'assurance automobile du Québec [6]			
Société des alcools du Québec [1]	2 367	1 657	710
Société des établissements de plein air du Québec [6]			
Société générale de financement du Québec [2]	1 565	1 490	75
Société Innovatech du Grand Montréal [3]			
Société Innovatech du Sud du Québec [1]	7	3	4
Société Innovatech Québec et Chaudière-Appalaches [1]	4	16	(12)
Société Innovatech Régions ressources [3]			
	20 056	**14 053**	**6 003**
Revenue allocated to the Generations Fund			(500)
Restatements [4]			
Adjustments [5]			225
			5 728

(1) Equity value was determined on the basis of audited financial statements as at March 31, 2007.
(2) Equity value was determined on the basis of audited financial statements as at December 31, 2006.
(3) Equity value was determined on the basis of unaudited financial statements as at March 31, 2007.
(4) The restatements result primarily from the application since January 1, 2007, by certain Government enterprises, of the new Canadian Institute of Chartered Accountants (CICA) standards governing financial instruments for the private sector.
(5) These adjustments stem mainly from unaudited interim results as at March 31, 2007.
(6) In 2006-2007, the enterprise status of these entities was changed to that of government organization, because of either the integration within the reporting entity of organizations of the health and social services and the education networks, or the change in their operating activities and their financial position.

Assets			Liabilities			2007	2006
Financial assets	Non-Financial assets	Total	Debts	Other	Total	Net equity	Net equity
						(in millions of dollars)	
23		23				23	22
						--	164
						--	77
3		3				3	6
7 808	55 440	63 248	35 828 (7)	8 580	44 408	18 840	17 376
452	1 639	2 091	1 975	55	2 030	61	49
85		85	87	2	89	(4)	(1)
2 581	80	2 661	2 610	6	2 616	45	33
305	772	1 077		942	942	135	135
						--	7
						--	(71)
305	268	573	7	529	536	37	36
						--	41
1 262	1 267	2 529	410 (8)	219	629	1 900	1 824
13		13	8		8	5	5
14		14				14	10
57		57				57	70
29		29				29	28
12 937	**59 466**	**72 403**	**40 925**	**10 333**	**51 258**	**21 145**	**19 811**
						830	
						1 428	1 055
						23 403	**20 866**

(7) The Government guarantees the corporation's borrowings contracted in various currencies. The net value of these borrowings stands at $34 742 million as at March 31, 2007 ($33 917 million as at March 31, 2006). This amount includes a financial guarantee for Gentilly-2 of $685 million in 2007 ($525 million in 2006), for which Hydro-Québec has set up a trust of $36 million ($32 million in 2006).

(8) Borrowings of $341 million as at December 31, 2006 ($368 million in 2005) by some of the Société's companies and subsidiaries are guaranteed by various types of security on accounts receivable, inventories and other tangible and intangible assets and by hypothecs on the universality of property, whose book value totalled $962 million as at December 31, 2006 ($956 million in 2005).

APPENDIX 10

Investment in Government enterprises (cont'd)

AS AT MARCH 31, 2007

Debt schedule after the impact of derivative instruments

	Repayment of long-term debts over the coming fiscal years						
	2008	2009	2010	2011	2012	2013 and thereafter	Total
						(in millions of dollars)	
Hydro-Québec	1 352	1 520	1 585	386	3 058	27 927	35 828
Immobilière SHQ	70	74	79	85	91	1 576	1 975
IQ FIER inc.						87	87
IQ Immigrants Investisseurs inc.	319	535	706	516	534		2 610
Société des alcools du Québec	1	1	1	2	2		7
Société générale de financement du Québec	106	24	19	21	27	213	410
Société Innovatech du Grand Montréal						8	8
	1 848	**2 154**	**2 390**	**1 010**	**3 712**	**29 811**	**40 925** (1)

(1) Including $236 million in debts contracted with the Government.

Investment in Government enterprises (cont'd)
AS AT MARCH 31, 2007

Government's share of restatements made by Government enterprises

Since January 1, 2007, certain Government enterprises have had to comply with the new Canadian Institute of Chartered Accountants (CICA) standards for financial instruments in the private sector, adopting the recommendations of CICA handbook section 3855 "Financial Instruments – Recognition and Measurement", which states the requirements for recognizing and measuring financial instruments, section 3865, "Hedges", which specifies how hedge accounting may be applied and the information to disclose in this context, section 3861, "Financial instruments – Disclosure and Presentation », and section 1530, "Comprehensive Income". The latter establishes the disclosure and presentation standards for comprehensive income, which includes net profits and other elements of comprehensive income.

Hydro-Québec

The application of these new standards increased the Société's retained earnings by $298 million as at January 1, 2007. This increase is due essentially to the abolition of the transitional rules related to the application of CICA handbook guideline AcG-13 "Hedging Relationships", the cumulated ineffectiveness of hedges and the replacement of the straight-line method by the effective interest rate method for the depreciation of financial assets and liabilities.

The application of these new standards also increased the accumulated other elements of comprehensive income as at January 1, 2007 by $479 million, due primarily to the recognition of the efficient portion of cash flows hedging relationships.

The Government thus corrected and increased its share in this enterprise by $777 million as at April 1, 2006, without restating the results for past years.

Société générale de financement du Québec

The application of these new standards decreased the Société's accumulated deficit as at January 1, 2007 by $4 million. This decrease is due primarily to the recognition of the restatement of the fair value of the long-term debt as at January 1, 2007 of a subsidiary consolidated line by line in the Société's financial statements.

APPENDIX 10

Investment in Government enterprises (cont'd)
AS AT MARCH 31, 2007

Government's share of restatements made by Government enterprises (cont'd)

Société générale de financement du Québec (cont'd)

The application of these new standards also increased the cumulated other elements of comprehensive income as at January 1, 2007 by $49 million, due primarily to the recognition of the restatement of the fair value of assets available for sale as at January 1, 2007, i.e. long-term investments in the Société's subsidiaries.

The Government thus corrected and increased its share in this enterprise by $53 million as at April 1, 2006, without restating the results for past years.

Total impact

These restatements increase (decreased) the following items :

	2007
	(in millions of dollars)
Investment in Government enterprises	830
Accumulated deficits and net debt, beginning of year	(830)

The impact of these new standards on revenue from Government enterprises for the fiscal year cannot be established.

Commitments

Hydro-Québec

Hydro-Québec has provided for capital investments of $4 204 million in 2007 ($3 972 million in 2006).

As at December 31, 2006, the Société had contracted commitments under contracts for the purchase of electricity, representing an installed capacity of roughly 3 960 MW. It plans to purchase about 13 TWh of energy annually over the terms of these contracts, which extend to 2045. Most of the contracts include renewal clauses.

APPENDIX 10

Investment in Government enterprises (cont'd)
AS AT MARCH 31, 2007

Commitments (cont'd)

Hydro-Québec (cont'd)

Taking into account electricity purchase contracts as a whole, the Société plans to make the following payments over the next five years:

	December 31, 2006
	(in millions of dollars)
2007	942
2008	1 047
2009	1 132
2010	1 166
2011	1 189
Total	**5 476**

IQ Immigrants Investisseurs inc.

During the normal course of its activities, this enterprise contracted various commitments totalling $142 million in 2007 ($142 million in 2006). These commitments represent non-refundable financial contributions whose cash outflow has not been authorized, as well as sums allocated to financial contributions to Emploi-Québec and for which the expenditure has not yet been incurred by the latter. The total amount of these commitments does not necessarily represent future cash requirements, as some of them may be cancelled before they give rise to disbursements.

Moreover, the Société committed $35 million in 2007 ($24 million in 2006) to paying fees for financial intermediaries to seek immigrant investors, entreprises to recommend to them and to close files involving them.

APPENDIX 10

Investment in Government enterprises (cont'd)
AS AT MARCH 31, 2007

Commitments (cont'd)

IQ FIER inc.

During the normal course of its activities, this enterprise contracted various commitments totalling $219 million ($205 million in 2006). These commitments represent investment agreements authorized by the Société. The total amount of these commitments does not necessarily represent future cash requirements, as some of them will expire or may be cancelled before they give rise to disbursements.

Société générale de financement du Québec

The Société is committed to acquiring tangible assets and purchasing services and raw materials aggregating $37 million over the next few years ($31 million in 2006).

Various enterprises

Under operating and long-term leases, certain Government enterprises were committed, as at March 31, 2007, to making minimum undiscounted payments totalling $491 million ($556 million in 2006).

Schedule

	2007
	(in millions of dollars)
2008	72
2009	70
2010	65
2011	59
2012	47
	313
2013-2017	178
	491

Some enterprises contracted commitments during the normal course of their activities. These commitments, totalling $141 million ($164 million in 2006), represent authorized commitments that had not been disbursed as at March 31, 2007. Some of them might not be paid if the events do not take place.

Investment in Government enterprises (cont'd)
AS AT MARCH 31, 2007

Contingency

Hydro-Québec

Hydro-Québec provided those who acquired its shares with guarantees on all of the statements and guarantees contained in the sales agreements, for which no liability has been recognized. The maximum potential quantifiable risk under these guarantees represents approximately $322 million. Hydro-Québec's statements and guarantees are valid for a period ending no later than February 24, 2008, except for potential tax liabilities and certain other usual statements, which remain in effect until the end of the prescription periods applicable.

As at March 31, 2007, the potential maximum amount the Société could have to pay under letters of credit or guarantees totalled $391 million ($410 million in 2006). Of this amount, $310 million ($313 million in 2006) relates to the purchase of energy, for which a liability in the amount of $14 million ($23 million in 2006) has been recorded. Some guarantees expire between 2007 and 2019, while others do not have maturity dates.

Material transactions and balances of enterprises with departments, organizations and special funds

	2007
	(in millions of dollars)
Inter-entity transactions	
Revenue	156
Expenditure	855
Inter-entity balances	
Financial assets	2 885
Non-financial assets – Deferred revenue, net of fixed assets	71
Long-term debt	248
Other liabilities	454
Net equity	
Dividends	
Hydro-Québec	2 342
Loto-Québec	1 391
Société des alcools du Québec	709
Contributions to the gouvernement du Québec for specified purpose accounts	61

APPENDIX 11

Long-term investments
AS AT MARCH 31, 2007

	2007				2006
	Shares and capital investments [6]	Bonds and notes	Loans and advances [6]	Total	Total
				(in millions of dollars)	
Municipalities and municipal bodies					
Municipalities		5 [1]		5	3
Municipal bodies			1 [1]	1	2
		5	1	6	5
Individuals, organizations, enterprises and other					
Students			831 [2]	831	817
Enterprises	198	18 [8]	1 120 [3] [4] [5]	1 336	1 726
Universities excluded from the reporting entity		1 265 [7] [8]		1 265	–
Non-profit and fiduciary organizations			31 [8]	31	31
Other		121 [8]	803 [8]	924	910
	198	1 404	2 785	4 387	3 484
Valuation allowances	(38)		(828)	(866)	(1 007)
	160	1 404	1 957	3 521	2 477
Sinking Fund relating to Borrowings by Québec Universities Establishments			161 [9]	161	201
Health and social services and education networks					
Financement-Québec				–	1 030
Corporation d'hébergement du Québec				–	1 916
Assets fo fund the fixed assets of the health and social services and the education networks				–	544
				–	3 490
	160	1 409	2 119	3 688	6 173

(1) Bonds and notes as well as loans and advances to municipalities and municipal bodies bear interest at rates of 3.55% to 10.0%.
(2) Loans and advances to students bear interest at rates of 4.25% to 14.875%.
(3) Loans to enterprises bear interest at rates of up to 15.0%.
(4) Guarantees received for loans and advances amount to $151 million at at March 31, 2007 ($118 million as at March 31, 2006).
(5) Loans and advances include, among others, loans with special repayment clauses based on royalties, for a total amount of $100 million.
(6) These investments were reduced by $331 million as at March 31, 2007 to reflect the grant portion relating to the concessionary terms.
(7) Bonds and notes to universities excluded from the Government reporting entity funded investments in fixed assets and are repayable mainly through subsequent budgetary appropriations from the Government.
(8) All other loans and advances as well as bonds and notes bear interest at rates of up to 12.25%.
(9) Under the *University Investments Act (R.S.Q., c. I-17)*, the Government created a sinking fund in which the amounts deposited by the responsible minister are allocated exclusively to the repayment of borrowings (principal and interest) for the funding of fixed assets of university institutions in Québec.

APPENDIX 11

Long-term investments (cont'd)
AS AT MARCH 31, 2007

Maturity of investments

	2007
	(in millions of dollars)
2008	488
2009	401
2010	360
2011	251
2012	551
	2 051
2013-2017	1 208
2018-2022	58
2023-2027	15
2028-2032	23
2033 and thereafter	270
	3 625
No fixed maturity date	394
	4 019
Amount charged to results to reflect the grant portion relating to long-term investments with concessionary terms	(331)
	3 688

APPENDIX 12

Generations Fund

AS AT MARCH, 2007

The purpose of the Generations Fund, created on January 1st, 2007 under the *Act to reduce the debt and establish the Generations Fund (R.S.Q., c. R-2.2.0.1),* is to reduce the Government's debt. Under this Act, the Fund's assets are used exclusively to repay the Government's debt.

Revenue
for the fiscal year ended March 31, 2007

	2007	
	Budget	**Actual results**
	(in millions of dollars)	
Own-source revenue		
Water-power royalties	73	76
Unclaimed property		5
Investment income		
Revenue from participation deposits	1	2
Revenue from demand deposits		1
Total own-source revenue	**74**	**84**
Revenue allocated by the Government		
Revenue from the sale of Hydro-Québec's share in Transelec Chile		500
Revenue	**74**	**584**

APPENDIX 12

Generations Fund (cont'd)

AS AT MARCH 31, 2007

Changes in fund balance
for the fiscal year ended March 31, 2007

	2007 (in millions of dollars)
Opening balance	–
Plus	
Revenue	584
Closing balance	**584**

Statement of financial position
as at March 31, 2007

	2007 (in millions of dollars)
Deposits with the Caisse de dépôt et placement du Québec	
Demand deposits	28
Investment income receivable	2
Participation deposits[1]	544
	574
Accounts receivable	10
Fund balance	**584**

(1) Participation deposits in a specific fund at the Caisse de dépôt et placement du Québec are expressed in units. These units are repaid with prior notice according to the Caisse's settlement terms and conditions at the market value of the fund's equity at the end of each month. As at March 31, 2007, the Generations Fund had 543 479 participation units whose fair value was $546 million.

APPENDIX 13

Bank overdraft
AS AT MARCH 31, 2007

	2007	2006
	(in millions of dollars)	
Outstanding cheques	764	624
Less		
Cash in bank	360	272
Cash and notes on hand and outstanding deposits	220	125
	580	397
	184	**227**

APPENDIX 14

Accounts payable and accrued expenses
AS AT MARCH 31, 2007

	2007	2006
	(in millions of dollars)	
Remuneration [1] [2]	1 548	1 117
Income and taxes refundable		
Income and property taxes	2 532	187
Consumption taxes	1 362	189
Suppliers	1 758	1 373
Advances from trust funds	187	434
Clearing account for collected taxes	21	101
Accrued interest on borrowings	2 766	2 342
Transfers [1]	2 737	3 039
	12 911	**8 782**

(1) Including an allowance of $450 millions ($1 171 million as at March 31, 2006) for pay equity divided between Remuneration and Transfers.
(2) Including vacation and overtime.

APPENDIX 15

Deferred revenue
AS AT MARCH 31, 2007

	2007	2006
	(in millions of dollars)	
Registration and drivers licence fees	591	572
Federal Government transfers [1]	1 311	1 028
Deferred contributions linked to the acquisition of fixed assets	715	485
Hydro-Québec borrowing guarantee fees	127	–
Specified purpose accounts	70	96
Other	105	39
	2 919	**2 220**

(1) These amounts are encumbered by externally-sourced allocations and must be used for the following purposes:

	2007				2006
	Opening balance	New transfers	Recognition in revenue	Balance at the end	Balance at the end
	(in millions of dollars)				
Municipal and local infrastructures	233	233	105	361	233
Wait time reduction (health)	704		423	281	704
Post-secondary education infrastructures		235		235	
Affordable housing		188		188	
Public transit infrastructures		116		116	
Maintenance of dams received from the Federal Government		44		44	
Housing for aboriginal people living off-reserve		38		38	
Other	91	16	59	48	91
	1 028	**870**	**587**	**1 311**	**1 028**

APPENDIX 16

Other liabilities
AS AT MARCH 31, 2007

	2007	2006
	(in millions of dollars)	
Allowance for losses on guaranteed financial initiatives	601	711
Environmental liability	463	--
Allowance to fund the fixed assets of Québec university institutions	161	201
Allowance to fund the fixed assets of the health and social services and the education networks	--	544
	1 225	1 456

APPENDIX 17

Debts
AS AT MARCH 31, 2007

Currency	2007							
	Direct		Health and social services and education networks		Work of municipal bodies		Total	
	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)
IN CANADIAN DOLLARS								
Short-term borrowings[1]	1 951	1 951	1 415	1 415			3 366	3 366
Treasury bills	2 950	2 950	323	323	23	23	3 296	3 296
Savings products	4 879	4 879					4 879	4 879
Bonds and notes	57 692	57 692	12 293	12 293	2 558	2 558	72 543	72 543
Commitments under capital leases	130	130					130	130
Currency swap contracts	23 748	23 748	1 714	1 714			25 462	25 462
	91 350	**91 350**	**15 745**	**15 745**	**2 581**	**2 581**	**109 676**	**109 676**
IN U.S. DOLLARS								
Bonds and notes	13 046	15 041	500	576			13 546	15 617
Currency swap contracts	(12 114)	(13 966)	(500)	(576)			(12 614)	(14 542)
	932	**1 075**	–	–			**932**	**1 075**
IN YEN								
Bonds and notes	450 054	4 413					450 054	4 413
Currency swap contracts	(237 700)	(2 331)					(237 700)	(2 331)
	212 354	**2 082**					**212 354**	**2 082**
IN EUROS								
Bonds and notes	7 518	11 591	650	1 002			8 168	12 593
Currency swap contracts	(5 478)	(8 447)	(650)	(1 002)			(6 128)	(9 449)
	2 040	**3 144**	–	–			**2 040**	**3 144**
IN SWISS FRANCS								
Bonds and notes	1 496	1 423					1 496	1 423
Currency swap contracts	1 768	1 681					1 768	1 681
	3 264	**3 104**					**3 264**	**3 104**
Amounts carried forward		**100 755**		**15 745**		**2 581**		**119 081**

APPENDIX 17

Debts (cont'd)
AS AT MARCH 31, 2007

	2007							
	Direct		Health and social services and education networks		Work of municipal bodies		Total	
Currency	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)
Amounts brought forward		**100 755**		**15 745**		**2 581**		**119 081**
IN POUNDS STERLING								
Bonds and notes	199	452					199	452
Currency swap contracts	(200)	(454)					(200)	(454)
	(1)	**(2)**					**(1)**	**(2)**
IN MEXICAN PESOS								
Bonds and notes	1 500	157					1 500	157
Currency swap contracts	(1 500)	(157)					(1 500)	(157)
	–	–					–	–
IN AUSTRALIAN DOLLARS								
Bonds and notes	647	604					647	604
Currency swap contracts	(647)	(604)					(647)	(604)
	–	–					–	–
IN NEW ZEALAND DOLLARS								
Bonds and notes	299	247					299	247
Currency swap contracts	(299)	(247)					(299)	(247)
	–	–					–	–
IN HONG KONG DOLLARS								
Bonds and notes	750	111					750	111
Currency swap contracts	(750)	(111)					(750)	(111)
	–	–					–	–
		100 753		**15 745**		**2 581**		**119 079**
Less								
Sinking fund		4 190		145		59		4 394
Debts before deferred foreign exchange gain (loss)		**96 563**		**15 600**		**2 522**		**114 685**
Deferred foreign exchange gain (loss)		1 885						1 885
		98 448		**15 600**		**2 522**		**116 570**

(1) Short-term borrowings in 2007 include $240 million in banker's acceptances and bank loans and $3 126 million in discounted notes.

APPENDIX 17

Debts (cont'd)
AS AT MARCH 31, 2007

Currency	2006							
	Direct		Health and social services and education networks		Work of municipal bodies		Total	
	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)
IN CANADIAN DOLLARS								
Short-term borrowings[1]	1 376	1 376					1 376	1 376
Treasury bills	2 895	2 895	331	331	74	74	3 300	3 300
Savings products	4 580	4 580					4 580	4 580
Bonds and notes	48 129	48 129	2 711	2 711	2 274	2 274	53 114	53 114
Commitments under capital leases	136	136					136	136
Currency swap contracts	22 791	22 791	3	3	400	400	23 194	23 194
	79 907	**79 907**	**3 045**	**3 045**	**2 748**	**2 748**	**85 700**	**85 700**
IN U.S. DOLLARS								
Bonds and notes	13 168	15 369	3	3	143	167	13 314	15 539
Currency swap contracts	(11 579)	(13 516)	(3)	(3)	(143)	(167)	(11 725)	(13 686)
	1 589	**1 853**	–	–	–	–	**1 589**	**1 853**
IN YEN								
Bonds and notes	452 450	4 494					452 450	4 494
Currency swap contracts	(165 599)	(1 645)					(165 599)	(1 645)
	286 851	**2 849**					**286 851**	**2 849**
IN EUROS								
Bonds and notes	7 562	10 714			99	141	7 661	10 855
Currency swap contracts	(7 577)	(10 736)			(99)	(141)	(7 676)	(10 877)
	(15)	**(22)**			–	–	**(15)**	**(22)**
IN SWISS FRANCS								
Bonds and notes	1 003	899					1 003	899
Currency swap contracts	5 272	4 723					5 272	4 723
	6 275	**5 622**					**6 275**	**5 622**
Amounts carried forward		**90 209**		**3 045**		**2 748**		**96 002**

APPENDIX 17

Debts (cont'd)
AS AT MARCH 31, 2007

	2006							
	Direct		Health and social services and education networks		Work of municipal bodies		Total	
Currency	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)	In millions of monetary units	Total in Canadian equivalent (in millions of dollars)
Amounts brought forward		**90 209**		**3 045**		**2 748**		**96 002**
IN POUNDS STERLING								
Bonds and notes	199	404					199	404
Currency swap contracts	(200)	(406)					(200)	(406)
	(1)	(2)					(1)	(2)
IN MEXICAN PESOS								
Bonds and notes	1 500	161					1 500	161
Currency swap contracts	(1 500)	(161)					(1 500)	(161)
	–	–					–	–
IN AUSTRALIAN DOLLARS								
Bonds and notes	646	541					646	541
Currency swap contracts	(646)	(541)					(646)	(541)
	–	–					–	–
IN NEW ZEALAND DOLLARS								
Bonds and notes	299	215					299	215
Currency swap contracts	(299)	(215)					(299)	(215)
	–	–					–	–
		90 207		**3 045**		**2 748**		**96 000**
Less								
Sinking fund		3 851		68		70		3 989
Debts before deferred foreign exchange gain (loss)		**86 356**		**2 977**		**2 678**		**92 011**
Deferred foreign exchange gain (loss)		1 606						1 606
		87 962		**2 977**		**2 678**		**93 617**

(1) Short-term borrowings in 2006 include $149 million in banker's acceptances and bank loans, $958 million in notes at par and $269 million in discounted notes.

APPENDIX 17

Debts (cont'd)
AS AT MARCH 31, 2007

Sinking fund
Changes in fund balance
for the fiscal year ended March 31, 2007

	2007	2006
	(in millions of dollars)	
Opening balance	3 989	3 525
Restatement	64	
Restated balance	4 053	3 525
Plus		
Payment from the Consolidated Revenue Fund	150	196
Net revenue	219	268
	4 422	**3 989**
Less		
Sums used to repay debts	(28)	–
Closing balance	**4 394** (1)	**3 989** (1)

Statement of financial position
as at March 31, 2007

	2007	2006
	(in millions of dollars)	
Investments		
Treasury bills	77	62
Bonds and notes	4 245	3 824
	4 322	**3 886**
Other assets		
Accounts receivable and accrued interest	51	75
Deferred foreign exchange loss	21	28
	72	**103**
Fund balance	**4 394** (1)	**3 989** (1)

(1) Including $204 million ($138 million in 2006), of which $145 million ($68 million in 2006) is for the Sinking Fund for Government Borrowings contracted to finance the health and social services and education networks and $59 million ($70 million in 2006) for the Sinking Fund of the Société québécoise d'assainissement des eaux.

APPENDIX 18

Net investment in the health and social services and the education networks

AS AT MARCH 31, 2007

Net investment in the health and social services and the education networks

	2007		
	Loans and advances [1]	Accumulated surplus (deficits)	Net investment in the networks
		(in millions of dollars)	
Health and social services network			
Agencies and Public institutions	6 467	(2 306) [2]	4 161
Education network			
School boards	4 585	(774) [3]	3 811
Colleges	1 486	(474) [3]	1 012
Université du Québec and its constituents	784	115 [3]	899
	13 322	**(3 439)**	**9 883**

(1) These loans and advances funded investments in fixed assets and are repayable mainly by means of subsequent government budgetary appropriations.

(2) These data were derived from audited financial statements as at March 31, 2007, adjusted to eliminate material differences between their accounting policies and those of the Government.

(3) These data were derived from the audited financial statements as at June 30, 2006 for school boards and colleges and as at May 31, 2006 for the Université du Québec and its constituents (except for the Université du Québec à Montréal, for which the data were derived from unaudited financial statements), adjusted to eliminate material differences between their accounting policies and those of the Government.

APPENDIX 18

Net investment in the health and social services and the education networks (cont'd)

AS AT MARCH 31, 2007

Summary of financial information on the health and social services and the education networks

	2007		
	Health and social services network [1]	Education network [2]	Total
	(in millions of dollars)		
RESULTS AND ACCUMULATED SURPLUS (DEFICITS)			
Expenditure			
Remuneration	9 868	8 320	18 188
Operations	6 323	3 009	9 332
Debt service	301	479	780
Total expenditure	16 492	11 808	28 300
Revenue			
School taxes		1 313	1 313
Revenue from users	943		943
Fees		179	179
Other	1 038	1 277	2 315
Total revenue	1 981	2 769	4 750
Net expenditure	14 511	9 039	23 550
Government transfers	14 274	9 057	23 331
Annual surplus (deficit) of the networks	**(237)**	**18**	**(219)**
Accumulated surplus (deficits) at the beginning	(2 069)	(1 151)	(3 220)
Accumulated surplus (deficits) at the end	**(2 306)**	**(1 133)**	**(3 439)**

(1) These data were derived from audited financial statements as at March 31, 2007, adjusted to eliminate material differences between their accounting policies and those of the Government.

(2) These data were derived from the audited financial statements as at June 30, 2006 for school boards and colleges and as at May 31, 2006 for the Université du Québec and its constituents (except for the Université du Québec à Montréal, for which the data were derived from unaudited financial statements), adjusted to eliminate material differences between their accounting policies and those of the Government.

APPENDIX 18

Net investment in the health and social services and the education networks (cont'd)

AS AT MARCH 31, 2007

Summary of financial information on the health and social services and the education networks

	2007		
	Health and social services network [1]	Education network [2]	Total
	(in millions of dollars)		
FINANCIAL POSITION			
Finacials assets	2 227	1 827	4 054
Liabilities			
Loan from the Corporation d'hébergement du Québec [3]	2 491		2 491
Loan from Financement-Québec [3]	3 976	6 855	10 831
Loan from financial markets [4]	1 239	2 249	3 488
Other liabilities	3 257	2 014	5 271
Total liabilities	10 963	11 118	22 081
Net debt	**(8 736)**	**(9 291)**	**(18 027)**
Fixed assets	6 176	8 127	14 303
Inventories and prepaid expenses	254	31	285
Total non-financial assets	**6 430**	**8 158**	**14 588**
Accumulated surplus (deficits) at the end	**(2 306)**	**(1 133)**	**(3 439)**

(1) These data were derived from audited financial statements as at March 31, 2007, adjusted to eliminate material differences between their accounting policies and those of the Government.

(2) These data were derived from the audited financial statements as at June 30, 2006 for school boards and colleges and as at May 31, 2006 for the Université du Québec and its constituents (except for the Université du Québec à Montréal, for which the data were derived from unaudited financial statements), adjusted to eliminate material differences between their accounting policies and those of the Government.

(3) In 2006-2007, the enterprise status of these entities was changed to that of Government organization because of the integration within the reporting entity of organizations of the health and social services and the education networks.

(4) Some of these borrowings have funded investments in fixed assets and are repayable using subsequent government budgetary appropriations.

APPENDIX 18

Net investment in the health and social services and the education networks (cont'd)

AS AT MARCH 31, 2007

Commitments

In the normal course of their activities, organizations of the health and social services and the education networks enter into various commitments, such as operating leases, long-term leases, supply and service contracts and contracts to acquire fixed assets. These commitments amount to a total of $2 724 million and represent authorized commitments not disbursed as at March 31, 2007. Some of these amounts may not be paid if the events do not take place.

The total non-discounted future minimum amounts payable under these contracts breaks down as follows:

	2007
	(in millions of dollars)
Agencies and public institutions (1)	1 657
School boards (2)	596
Colleges (2)	107
Université du Québec and its constituents (3)	364
	2 724

Contingencies

Certain organizations of the health and social services and the education networks are the object of various lawsuits whose outcome cannot be determined and provide loan guarantees to third parties. These contingencies represent a total of $459 million that breaks down as follows:

	2007
	(in millions of dollars)
Agencies and public institutions (1)	354
School boards (2)	47
Colleges (2)	13
Université du Québec and its constituents (3)	45
	459

(1) As at March 31, 2007.
(2) As at June 30, 2006.
(3) As at May 31, 2006.

APPENDIX 19

Fixed assets

AS AT MARCH 31, 2007

Fixed assets are recorded at cost. They are depreciated over their useful life using the following methods:

Category	Depreciation method	Useful life
Buildings, including those rented under capital leases	Straight-line and annuity	10 to 50 years
Facilities	Straight-line	5 to 10 years
Complex networks	Straight-line	10 to 40 years
Equipment, including those rented under capital leases	Straight-line	3 to 20 years
Development of data processing systems	Straight-line	5 to 10 years

Works of art and historic property consist mainly of paintings, sculptures, drawings, prints, photographs, installations, films and videos and their cost is charged to expenditures for the fiscal year in which they are acquired.

The following table presents a summary of the operations and balances of the main categories of fixed assets:

	Land	Buildings	Facilities	Complex networks	Equip-ment	Development of data processing systems	2007 Total	2006 Total
Cost of fixed assets							(in millions of dollars)	
Opening balance	423	4 747	223	17 876	2 561	1 840	27 670	25 634
Adjustments	157	2 306	4	(108)	200	128	2 687	
Adjusted balance	580	7 053	227	17 768	2 761	1 968	30 357	25 634
Acquisitions	51	302	40	1 501	258	291	2 443	2 224
Disposal and reductions in value	(5)	(12)	(16)	(27)	(118)	(44)	(222)	(188)
Closing balance	**626**	**7 343**	**251**	**19 242**	**2 901**	**2 215**	**32 578**	**27 670**
Accumulated depreciation								
Opening balance		2 321	128	9 724	1 640	873	14 686	13 816
Adjustments		359	1	(33)	122	54	503	
Adjusted balance		2 680	129	9 691	1 762	927	15 189	13 816
Depreciation expenses		214	11	529	208	192	1 154	917
Impact of disposal and reductions in value		(17)	(8)		(105)	(22)	(152)	(47)
Closing balance	--	**2 877**	**132**	**10 220**	**1 865**	**1 097**	**16 191**	**14 686**
Fixed assets	**626**	**4 466**	**119**	**9 022**	**1 036**	**1 118**	**16 387** (1)	**12 984** (1)

(1) Including fixed assets rented under capital leases totalling $160 million in 2006-2007 ($148 million in 2005-2006). The depreciation amount related to these fixed assets was $14 million in 2006-2007 ($12 million in 2005-2006). The total for fixed assets includes $1 891 million in 2006-2007 ($1 393 million in 2005-2006) in property under construction or development for which no depreciation was taken.

APPENDIX 20

Breakdown of contractual obligations
AS AT MARCH 31, 2007

Transfers – Funding for the acquisition of fixed assets

	2007	2006
	(in millions of dollars)	
Repayment of the principal on borrowings for the acquisition of fixed assets		
Universities excluded from the Government's reporting entity	1 934	9 408 (1)
Health and social services institutions and agencies	--	4 411 (1)
Municipalities and municipal bodies	2 791	2 874
Other beneficiaries	1 128	872
	5 853 (2)	**17 565** (2)
Funding of authorized projects for the acquisition of fixed assets (3)		
Universities excluded from the Government's reporting entity	353	1 454 (1)
Health and social services institutions and agencies	--	2 651 (1)
Municipalities and municipal bodies	1 104	850
Other beneficiaries	226	304
	1 683	**5 259**
Repayment of the cost of fixed assets	**161**	**54**
	7 697 (4)	**22 878** (4)

(1) The data as at March 31, 2006 included contractual obligations to all the organizations of the health and social services and the education network that, since the 2006-2007 accounting reform, are included within the government reporting entity.

(2) Organizations that received transfers contracted borrowings with:

	2007	2006
	(in millions of dollars)	
Government organizations		
Financing Fund		20
Financement-Québec	1 238	10 984
Corporation d'hébergement du Québec		453
	1 238	11 457
Financial institutions outside the Government	4 776	6 853
	6 014	**18 310**
Sinking Fund relating to Borrowings by Québec University Establishments	(161)	(745)
	5 853	**17 565**

(3) These contractual obligations represent the value of authorized amounts that have already been financed in part for realized acquisitions of fixed assets.

(4) Contractual obligations in foreign currency are shown at their Canadian equivalent at the exchange rates in effect on March 31 and take currency swap contracts into account.

APPENDIX 20

Breakdown of contractual obligations (cont'd)
AS AT MARCH 31, 2007

Summary schedule of transfers for repayment of the principal on borrowings for the acquisition of fixed assets (1)

Maturity	Universities excluded from the Government's reporting entity	Municipalities and municipal bodies	Other beneficiaries	Total
			(in millions of dollars)	
2008	239	366	139	744
2009	237	326	124	687
2010	271	281	118	670
2011	146	275	101	522
2012	439	230	112	781
	1 332	**1 478**	**594**	**3 404**
2013-2017	593	839	318	1 750
2018-2022	5	280	193	478
2023-2027	4	126	16	146
2028-2032		55	7	62
2033 and thereafter		13		13
	1 934	**2 791**	**1 128**	**5 853**

(1) This schedule was drawn up according to the dates shown on bonds or notes at the balance sheet date. Any refinancing after that date will affect the above schedule.

APPENDIX 20

Breakdown of contractual obligations (cont'd)
AS AT MARCH 31, 2007

Transfers – Agreements

Agreement between the Gouvernement du Québec and the Québec Cree

An agreement was signed by the Government and the Québec Cree in February 2002 to help the Cree achieve more autonomy and take charge of their development. The agreement also allows the Cree to play a greater role in economic development activities in the territory covered by the James Bay and Northern Québec Agreement (JBNQA).

The February 2002 agreement provides in particular for annual transfer payments to the James Bay Cree over a period of 50 years, i.e. from 2002-2003 to 2051-2052. In return, the Cree assume the obligations of the Gouvernement du Québec, Hydro-Québec and the Société d'énergie de la Baie James under certain provisions of the JBNQA pertaining to the Cree's economic and community development. The minimum annual payments provided for over the coming years amount to $70 million, subject to indexation, until 2052. As at March 31, 2007, the balance payable was $3 150 million ($3 220 million in 2006).

Agreement respecting global funding for the Kativik Regional Government

An agreement was signed by the Gouvernement du Québec and the Kativik Regional Government in March 2004 to simplify the payment of transfers from various Québec government departments. It also grants the Kativik Regional Government greater autonomy in allocating funds based on regional priorities.

The agreement provides for the payment over 24 years, i.e. from 2004-2005 to 2027-2028, of annual transfer payments of $27.5 million, subject to indexation, as of January 1, 2005. As at March 31, 2007, the balance payable was $744 million ($737 million in 2006).

Partnership agreement on economic and community development in Nunavik

A partnership agreement on economic and community development in Nunavik was signed in April 2002 between the Gouvernement du Québec, the Makivik Corporation and the Kativik Regional Government to meet the specific needs of the people of Nunavik by funding economic and community projects and providing local communities with better economic and community development prospects. It was amended on August 1, 2006 by Order-in-Council 696-2006. The agreement runs 25 years, i.e. from 2002-2003 to 2026-2027.

APPENDIX 20

Breakdown of contractual obligations (cont'd)
AS AT MARCH 31, 2007

Transfers – Agreements (cont'd)

Partnership agreement on economic and community development in Nunavik (cont'd)

As of 2006-2007, the annual transfer payments for the Inuit of Nunavik are $25 million indexed until 2027. As at March 31, 2007, the balance payable was $541 million ($331 million in 2006).

Other agreements

Other agreements include notably agreements on new fiscal and financial partnerships with the municipalities for $1 970 million as at March 31, 2007 ($389 million as at March 31, 2006), the national policy on rural areas for $280 million as at March 31, 2007 ($21 million as at March 31, 2006), the subsidy agreement reached with the Ville de Montréal for $227 million as at March 31, 2007 ($235 million as at March 31, 2006), the agreement concerning block funding for northern villages in the Kativik region for $224 million as at March 31, 2007 ($209 million as at March 31, 2006), and the agreement on breakdown of Government reinvestment of $172 million in higher education. They also include other contributions for $915 million as at March 31, 2007 ($678 million as at March 31, 2006)

APPENDIX 21

Contingencies
AS AT MARCH 31, 2007

Guaranteed financial initiatives

	2007	2006
	(in millions of dollars)	
Government agencies		
Loan guarantees granted by Investissement Québec [1]	2 449	2 919
Guarantees granted by the Société d'habitation du Québec [1]	980	977
Other	227	244
	3 656	**4 140**
Individuals and corporations		
Farm and forest producer loan guarantees [1]	4 206	4 173
Students loan guarantees [1]	3 139	3 091
Other loans	87	81
	7 432	**7 345**
Total guaranteed financial initiatives	**11 088**	**11 485**
Allowance for losses on guaranteed financial initiatives	(601)	(711)
NET GUARANTEED FINANCIAL INITIATIVES	**10 487**	**10 774**

(1) See additional information on following pages.

Contingencies (cont'd)
AS AT MARCH 31, 2007

Loan guarantees granted by Investissement Québec (1)

	2007		2006
	Authorized (2)	Contingent liabilities	Contingent liabilities
		(in millions of dollars)	
Loan guarantees in effect (3)	2 785	2 449	2 382
Authorized loan guarantees not in effect	534		537
	3 319	**2 449**	**2 919**
Allowance for losses on guaranteed financial initiatives		**(173)**	**(276)**
		2 276	**2 643**

(1) The Government guarantees the payment of principal and interest on the loans concerned under the *Act respecting Investissement Québec and La Financière du Québec (R.S.Q., c. I-16.1)*.
(2) Representing the value of the amounts initially authorized when the financing agreements were reached.
(3) The total value of securities received as loan guarantees was $1 445 million as at March 31, 2007 ($1 721 million as at March 31, 2006).

APPENDIX 21

Contingencies (cont'd)
AS AT MARCH 31, 2007

Guarantees granted by the Société d'habitation du Québec (1)

	2007		2006
	Authorized	Contingent liabilities	Contingent liabilities
		(in millions of dollars)	
Loan guarantees			
Achat-rénovation, AccèsLogis Québec and Affordable Housing Québec programs social and community component (2)	625	625	605
Other guarantees			
Assistance Program for Community Housing Organizations, and NPO - Private and Remote Housing programs (3)	355	355	372
	980	**980**	**977**
Allowance for losses on guaranteed financial initiatives		(12)	(11)
		968	**966**

(1) The Société d'habitation du Québec (SHQ) grants guarantees under the *Act respecting the Société d'habitation du Québec (R.S.Q., c. S-8)*.

(2) Loans from financial institutions guaranteed by the SHQ and granted to non-profit organizations or cooperatives for periods of 25 or 35 years following the approval of an extension by the SHQ. The principal and interest associated with such loans are covered by the organizations concerned. The loans finance the cost of buildings.

(3) Loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) for which the SHQ has concluded agreements under which it is committed to buying property taken over by the CMHC when a borrower defaults on a loan, for an amount equal to the value of the claim paid to the approved lender plus incidental expenses. Guarantees granted for the above-mentioned programs cover 25-year periods, except if they are related to loans granted in urban regions for NPO-Private housing programs, in which case they cover periods of 35 years. The principal and interest associated with such loans are covered by the organizations concerned. The loans finance the cost of buildings.

Farm and forest producer loan guarantees (1)

	2007		2006
	Authorized	Contingent liabilities	Contingent liabilities
		(in millions of dollars)	
Act respecting La Financière agricole du Québec (R.S.Q., c. L-0.1)	4 096	4 069	4 022
Various acts	137	137	151
	4 233	**4 206**	**4 173**
Allowance for losses on guaranteed financial initiatives		(65)	(58)
		4 141	**4 115**

(1) Balances of principal and interest on loans for which the Fonds d'assurance-prêts agricoles et forestiers reimburses losses and related charges.

Contingencies (cont'd)
AS AT MARCH 31, 2007

Student loan guarantees (1)

	2007		2006
	Authorized	Contingent liabilities	Contingent liabilities
		(in millions of dollars)	
Loans for which the Government repays interest as long as the borrower is a student	1 312	1 312	1 317
Loans for which borrowers are responsible for repaying principal and interest	1 817	1 817	1 760
Loans for the purchase of a personal computer, for which borrowers are responsible for repaying interest	10	10	14
	3 139	**3 139**	**3 091**
Allowance for losses on guaranteed financial initiatives		(341)	(356)
		2 798	**2 735**

(1) The Government guarantees the reimbursement of losses of principal and interest to lending institutions under the *Act respecting financial assistance for students (R.S.Q., c. A-13.3).*

APPENDIX 22

Summary of fiduciary transactions conducted by a Department and Government agencies and funds

AS AT MARCH 31, 2007

	2007				2006
	Liabilities	Assets	Increase (decrease) in accrued equity	Net equity	Net equity
			(in millions of dollars)		(Restated)
Caisse de dépôt et placement du Québec [1]	64 379	207 858	21 320	143 479	122 159
Cautionnements individuels des agents de voyages	4	4			
Comité Entraide - public and parapublic sectors [1]	9	9			
Commission administrative des régimes de retraite et d'assurances [1]					
RREGOP	59	44 422	5 271	44 363	39 092
PPMP	5	7 447	961	7 442	6 481
Other plans	68	486	49	418	369
Commission de la construction du Québec [1]					
General Fund	66	91	8	25	17
Supplemental pension plan - general account	38	3 783	251	3 745	3 494
Supplemental pension plan - pensioners' account	2	5 000	544	4 998	4 454
Other	698	3 422	549	2 724	2 175
Conseil de gestion de l'assurance parentale [1]	24	24			
Curateur public [1]	22	282	(15)	260	275
Fonds central de soutien à la réinsertion sociale [1]		2		2	2
Guarantee Insurance Fund administered by the Régie des marchés agricoles et alimentaires du Québec		5		5	5
Fonds d'assurance parentale [1]	389	599	208	210	2
Fonds d'assurance-récolte	19	95	1	76	75
Fonds d'assurance-stabilisation des revenus agricoles	819	222	(225)	(597)	(372)
Support Payments Fund	319	319			
Fonds d'indemnisation des clients des agents de voyages	6	23	10	17	7
Fonds d'indemnisation des services financiers	44	10	(15)	(34)	(19)
Amounts carried forward	**66 970**	**274 103**	**28 917**	**207 133**	**178 216**

APPENDIX 22

Summary of fiduciary transactions conducted by a Department and Government agencies and funds (cont'd)

AS AT MARCH 31, 2007

	2007				2006
	Liabilities	Assets	Increase (decrease) in accrued equity	Net equity	Net equity
			(in millions of dollars)		(Restated)
Amounts brought forward	**66 970**	**274 103**	**28 917**	**207 133**	**178 216**
Fonds du compte de stabilisation du revenu agricole	2	2			
Trust funds	107	107			
Trust funds - Goods and Services Tax	101	101			
Fonds national de formation de la main-d'œuvre	2	68	(16)	66	82
Hydro-Québec - pension plan [1]	22	12 833	1 480	12 811	11 331
Régie des rentes du Québec					
Fonds du régime de rentes du Québec	643	34 238	4 622	33 595	28 973
Other	17	28	2	11	9
Ministère du Revenu - Property under administration [1]	61	95	34	34	
	67 925	**321 575**	**35 039**	**253 650**	**218 611**
Funds entrusted to the Caisse de dépôt et placement du Québec		(96 633)	(11 761)	(96 633)	(84 872)
	67 925	**224 942**	**23 278**	**157 017**	**133 739**

(1) Financial statements as at December 31, 2006.

APPENDIX 23

Reserve
AS AT MARCH 31, 2007

	Additional payment to the Generations Fund	Maintenance of a balanced budget	2007	2006
Opening balance	--	--	--	--
Allocated to the reserve	200	1 100	1 300	--
Closing balance	**200**	**1 100**	**1 300**	--

Under the *Act to establish a budgetary surplus reserve fund (R.S.Q., c. R-25.1)*, the Government set up a reserve to finance fixed assets projects and other projects to be completed within a fixed period of time. However, when the Government believes that it is in the public interest to do so, it can use the reserve for projects other than those for which it was created. Further, the Government may allocate all or part of the reserve to maintaining a balanced budget.

In the Budget Speech, the Minister of Finance determines the portion of the surplus for the fiscal year exceeding the budgetary objective to be allocated to the reserve and the amounts to be allocated to the different components.

In the *2007-2008 Budget Speech*, the Minister announced that a $1 300 million surplus of revenue over expenditure, excluding revenue from the Generations Fund, for the fiscal year ended March 31, 2007 was allocated to the reserve.

In 2007-2008, the Government intends to pay an additional $200 million into the Generations Fund from the amounts allocated to the budgetary reserve in 2006-2007. The reserve balance, i.e. $1 100 million, is slated for use to maintain a balanced budget in 2008-2009.

Finances
Québec